The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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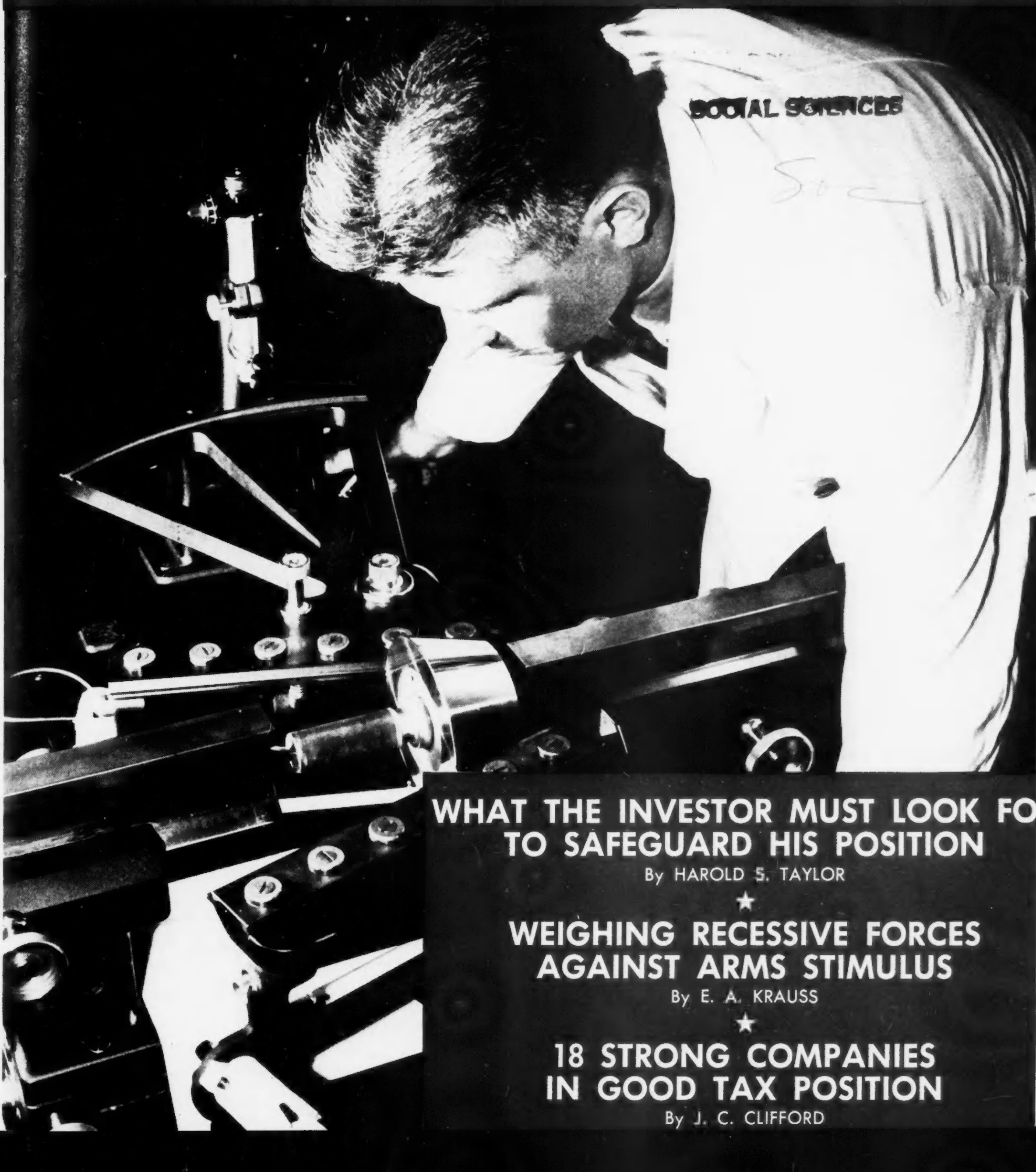

WHAT THE INVESTOR MUST LOOK FO[R] TO SAFEGUARD HIS POSITION

By HAROLD S. TAYLOR

★

WEIGHING RECESSIVE FORCES AGAINST ARMS STIMULUS

By E. A. KRAUSS

★

18 STRONG COMPANIES IN GOOD TAX POSITION

By J. C. CLIFFORD

More Protection for More People

Report to Metropolitan Policyholders for 1951

The importance of Life insurance and its relationship to the lives of the people of the United States and Canada cannot effectively be portrayed by figures in a balance sheet. Cold figures can never adequately show human needs and their fulfillment. It is important, therefore, to try to interpret these figures in terms of the millions of people they represent and the millions who benefit by the use of the services rendered by the Company and its Agents. The Metropolitan was serving 33,373,000 Life insurance policyholders at the close of the year.

The personal phases of Life insurance—for it is a highly personal business—are highlighted daily by dramatic instances. Sometimes they are so unusual as to give special emphasis to the part our business plays in the life of the United States and Canada. The following quotation from a letter from the son of a deceased policyholder, requesting the return of a policy on which claim had been paid, tells with simple sincerity a moving story of a Life insurance policy, of the son's relationship with his father, and of a sound process of economic and social education:

"This policy . . . has for me possibly a greater sentimental value than it would have cash value . . . For you to understand this, you would have to know the years of close relationship and confidence that existed between my father and me. When I was a small boy, he would take me with him to his safety deposit vault . . . Always he stressed to me the importance of his insurance policy, how this piece of paper would some day have a cash value that might tide the family over in an emergency . . . Time has passed . . . but the sentimental worth of this piece of paper is constant in my thinking . . . I have always been told that business, especially Big Business, is hard and cold and rigid, but I know that this is not so, because business is made up of people. People with hearts and souls and loved ones, and people who have lost loved ones, and some who possibly think and feel the same way that I do."

We were, of course, pleased to grant this unusual request.

The record sum of $924,000,000 was paid in benefits to policyholders and beneficiaries during 1951. This included payments of $141,000,000 on more than 1,250,000 claims (five times ten years ago) for Accident and Health and Disability benefits. A new high was also reached in Life insurance in force—$48,512,000,000, a gain of more than $3,000,000,000 over 1950.

More people than ever were protected last year by Metropolitan Accident and Health insurance. As the year closed, the Company had in force 3,270,000 policies or certificates providing weekly indemnity for disability of $86,000,000 per week. Hospital, Surgical or Medical Expense benefits were provided by 2,744,000 policies or certificates.

Another significant development during the year was the introduction of Extended Medical Coverage through Group insurance to protect people against abnormal hospital, surgical, and medical expense that might exhaust a family's entire savings.

CHARLES G. TAYLOR, JR.
President

METROPOLITAN ASSETS AND OBLIGATIONS—DECEMBER 31, 1951

(In accordance with the Annual Statement filed with the Insurance Department of the State of New York.)

ASSETS WHICH ASSURE FULFILLMENT OF OBLIGATIONS

Bonds		$7,692,216,940.58
U. S. Government	$2,289,608,948.99	
Canadian Government	174,292,067.10	
Provincial and Municipal	67,686,151.19	
Railroad	600,924,947.28	
Public Utility	1,426,156,349.76	
Industrial and Miscellaneous	3,012,453,404.33	
Bonds of the Company's housing development corporations	121,095,071.93	
Stocks		169,090,896.67
All but $16,499,331.67 are preferred or guaranteed.		
Mortgage Loans on Real Estate		1,890,959,998.40
On urban properties	$1,745,033,573.75	
On farms	145,926,424.65	
Real Estate (after decrease by adjustment of $16,400,000.00 in the aggregate)		299,649,990.00
Housing projects and other real estate acquired for investment	$265,200,536.96	
Properties for Company use	45,070,016.26	
Acquired in satisfaction of mortgage indebtedness (of which $3,184,671.89 is under contract of sale)	5,779,436.78	
Loans on Policies		447,060,539.27
Made to policyholders on the security of their policies.		
Cash and Bank Deposits		162,302,812.57
Premiums, Deferred and in Course of Collection		149,471,380.68
Accrued Interest, Rents, etc.		90,153,625.90
TOTAL ASSETS TO MEET OBLIGATIONS		$10,900,906,184.07

OBLIGATIONS TO POLICYHOLDERS, BENEFICIARIES, AND OTHERS

Statutory Policy Reserves		$9,284,635,384.00
This amount, which is determined in accordance with legal requirements, together with future premiums and reserve interest, is necessary to assure payment of all future policy benefits.		
Policy Proceeds and Dividends Left with Company		615,163,380.00
Policy proceeds from death claims, matured endowments, and other payments, and dividends left with the Company by beneficiaries and policyholders to be paid to them in future years.		
Reserved for Dividends to Policyholders		170,404,842.55
Set aside for payment in 1952 to those policyholders eligible to receive them.		
Policy Claims Currently Outstanding		48,734,247.68
Claims in process of settlement, and estimated claims that have occurred but have not yet been reported to the Company.		
Other Policy Obligations		71,057,118.70
Including premiums received in advance and special reserves for mortality and morbidity fluctuations.		
Taxes Accrued (Payable in 1952)		43,269,538.00
Contingency Reserve for Mortgage Loans		9,000,000.00
All Other Obligations		25,805,419.38
TOTAL OBLIGATIONS		$10,268,069,930.31

SURPLUS FUNDS

Special Surplus Funds	$103,883,000.00	
Unassigned Funds (Surplus)	528,953,253.76	
TOTAL SURPLUS FUNDS		632,836,253.76
TOTAL OBLIGATIONS AND SURPLUS FUNDS		$10,900,906,184.07

NOTE—Assets amounting to $513,921,526.32 are deposited with various public officials under the requirements of law or regulatory authority. In the Annual Statement filed with the Massachusetts Insurance Department, "Statutory Policy Reserves" are $9,284,703,206.00, and "All Other Obligations" are $25,737,597.38.

Metropolitan Life Insurance Company

(*A MUTUAL COMPANY*)

Home Office: 1 Madison Avenue, New York 10, N. Y.
Pacific Coast Head Office: 600 Stockton Street, San Francisco 20, Cal.

METROPOLITAN LIFE INSURANCE CO.
1 Madison Avenue, New York 10, N. Y.

Gentlemen:

Please send me a copy of your Annual Report to Policyholders for 1951.

NAME ____________________

STREET ____________________

CITY ____________________ STATE ____________

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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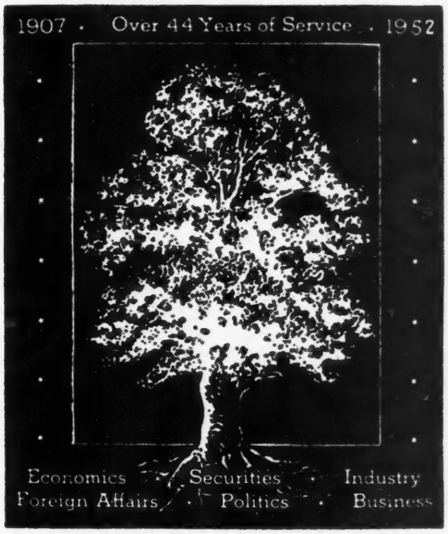
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

BUDGET AND TAX PEAK . . . President Truman's demand upon Congress for $7.9 billion with which to run the Mutual Security Program for another year came almost simultaneously with the greatest single tax payment ever exacted from the American people. This coincidence made it almost a certainty that taxes and Federal budgets have both reached their peak for the time being. It also makes it certain, if other events had not already done so, that the attack upon the President's total $85.4 billion Federal budget for fiscal 1953 will center upon the foreign aid items.

Immediate condemnation of the President's budget total came in large part from the usual sources. The Chamber of Commerce of the United States quickly suggested a total reduction of $14.4 billion. Senator George of Georgia proposed a cut of $7 billion. Senator Douglas of Illinois set possible cuts at $7.6 billion. Senator Byrd of Virginia is already on record with specific cuts approaching $8 billion.

These are familiar voices. That Senator O'Mahoney should join the chorus with a demand for a $10 billion reduction, however, was a real omen. The gentleman from Wyoming has long been in the forefront of those in Washington who believe that whatever the citizen could do for himself the government could do better. If an O'Mahoney has begun to count costs, the attitude must be almost universal.

Any optimism as to the ultimate result of this about-face on taxes should be extremely cautious. Actual passage of the budget will come in a rush of horse-trading and log-rolling at the end of a dawdling session, and only the expert will know exactly what is in it. Nevertheless, the trend is away from constantly increasing budgets and constantly rising tax bills.

If this hopeful diagnosis is a sound one, the results will not be immediately of benefit to the taxpayer. As long as the problem of halting inflation was left to the vague and distant future, the exact size of the deficit from year to year might vary at convenience. If we are really to pay as we go, taxes every year must cover revenues, and thus budget cuts must be greater than tax cuts.

The fact that foreign spending appears certain to bear the brunt of reduction is not as dangerous to American leadership of the free world as partisans will try to make it appear. The report of the first year's activities of the Mutual Security Program, just published in an elaborate brochure, show that venture to be neither mutual, nor conducive to security, nor even a program.

Military procurement programs for Europe alone, in fiscal 1952 and 1953 together, amount to $12 billion. This means that Congress still has at its disposal some $7.5 billion of this sum. The French Chamber of Deputies has twice refused to raise taxes for its proportionate share of the rearming effort. The British Conservative government has discovered, as its budget shows, that Labor mortgaged so much British income for consumption that it will be a time-consuming task to put the United King-

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS : : 1907 – *"Over Forty-four Years of Service"* – 1952

dom in a posture of defense.

The risks of cutting back the pace of rearmament to what our allies will support will be more than offset by the gain in goodwill which will result from thus treating them as if they were allies, and not satellites, and the relief to the American taxpayer.

THE NEW BLS INDEX . . . Commodity charts and tables of the Magazine of Wall Street are altered in this issue to accord with the new wholesale price index of the Bureau of Labor Statistics. The new series will appear strangely deflated to those accustomed to the former index which used 1926 prices as a base. The new index measures fluctuations from a 1947-49 base, during which prices were more than 50% higher than in 1926.

Some commentators have fiercely condemned the new index for its modest level–113.2 in January, 1952, compared to 176.8 for the older series. In any dish from the New Deal kitchen there are those who detect the flavor of skulduggery before they even taste it. Actually, any sampling procedure requires periodic review and revision or it becomes so obsolete as to be useless.

The new index, computed back to 1926 for comparison with the old, shows a 63.1% rise in prices where the old one shows a 66.0% rise. The difference can hardly be charged to an effort to deceive the unsophisticated voter in an election year.

TAMPERING WITH THE MONEY SYSTEM . . . Speaking before the Patman subcommittee on monetary and debt policy, Mr. Leon Keyserling, chairman of President Truman's Council of Economic Advisers refused to admit that the increase in the money supply, which had been fostered by the Treasury until its long fight with the Federal Reserve temporarily ended last April, had much to do with the long rise in prices culminating with the unpegging of the government bond market. With the unpegging, it had been thought that possibly the Treasury had come around to the sound view that additional credit should not be created through price support of government securities by the Federal Reserve. However, we find again that the President's economic adviser does not believe in this more realistic approach and sees no reason for criticism of the Treasury's former pressure on the central bank.

It is difficult to understand this attitude since it had been agreed last Spring that the chief cause of price inflation had been the inability of the Federal Reserve system to exercise its chief regulatory function, as a result of the Treasury's policies.

What the country is entitled to know is whether the Treasury merely beat a strategic retreat last Spring when it seemed opportune to do so, or whether it has finally reconciled itself to the fact the central bank ought to be permitted to function along lines which it thinks best suited to the fundamental needs of the country. Some agency should be able to disregard the political considerations that necessarily hamper the Treasury which, after all, is only an arm of the Administration.

It is time that the separation of the functions of the Federal Reserve and the Treasury is clearly delineated. If necessary, legislation should be adopted for this purpose.

THE FOREIGN TRADE JUNGLE . . . Paralleling the cutbacks in imports recently put into effect by Britain, New Zealand, Australia, South Africa, the latest of the nations in the sterling bloc to take such action is Ireland. In the meantime, many other nations outside the sterling bloc are taking similar action in an attempt to protect their trade and currency positions through government controls, quotas, clearances of one sort or another and many other types of restrictions. The result, as might be expected, is to place these nations in a sort of trade straitjacket, creating a veritable nightmare to export and import interests throughout the world.

These developments have arrived at an unfortunate juncture, imperiling the painfully bought post-war economic recovery which was brought about by Marshall aid and other forms of American assistance. Just at the point when these nations seemed to have arrived at a point of economic equilibrium, their budgets are now set awry by dislocations arising from the world armaments drive. Yet it is clear that the economic health of the free nations in Europe, Asia and South America cannot be restored without establishing a sufficiently firm monetary basis and that that can bring about a free flow of trade as soon as possible.

Unfortunately, precisely the opposite is occuring, with markets, some of which have been established for many years, destroyed not only through the quota system but through a new crop of hybrid currencies, an experience the world remembers with distaste as it looks back on the disorganized currency systems so prevalent just before World War II. Now once again we have transferable sterling, bilateral sterling, francs for internal use, blocked marks, and dozens of special currencies for clearance payments.

Fundamentally, the restrictions now being put into force have for their objectives an increase in home consumption and for export, in order to reach a better balance in foreign trade and thus end the pressure on dollar reserves. This desperate effort, however, necessarily results in a welter of laws which many officials in these nations find it impossible to administer. Even the most experienced government enforcers find themselves confused and impotent in the face of hundreds of new regulations, often contradictory.

One of the most unfortunate results of this situation is that people engaged in the practical business of buying and selling in world markets are forced to adopt roundabout and expensive methods in continuing their legitimate trade. A sort of legalized "black market" in world trade has been developing whereby international trading interests, prevented from dealing directly with the country with which they have been doing business, find ways and means of circumventing newly-imposed restrictions by trading through a third country.

Regardless of the reasons for this unsalutary state of affairs, it is obvious that some concerted action must be taken to end what is becoming an impossible situation, if international trade is to be preserved at adequate levels. American exporters and importers have reason to be as deeply concerned as others, a fact which they are learning to their cost in their handicapped trade with many nations.

As I See It!

By JOHN CORDELLI

COMMUNIST BEACHHEADS IN LATIN AMERICA?

Last week there was another old-fashioned Latin American revolution. This time, right next to our shores. In Cuba. It took less than two hours and two dead to liquidate the Government of President Prio Socarras, duly elected in 1948. The man who back in 1933 was "the most efficient stenographer in the Cuban Army" but who since then made and unmade almost half a dozen Cuban Presidents and who served as President himself, the strong man of Cuba, General Fulgencio Batista, is back in power. Constitutional guarantees are suspended for one month and a half. There are to be elections on June 1, and the crafty General himself is one of the candidates. Five to one he will be elected!

All this would make good scenes in a musical comedy if it was not so tragic. After fifty years of independence and presumably democratic education, Cuba, one of the most prosperous and most advanced of the Latin American Republics, has not progressed much beyond personal government. The differences between the views of former President Socarras and those of the General are superficial. Socarras, once Minister of Labor, apparently failed to break up the so-called action gangs, hoodlums who interpret pilfering as freedom, although he was elected to do so. General Batista, with the Army behind him—his first act was to raise army salaries—may fare better, which is why business and the more conservative elements are inclined to judge the situation as a turn for the better. But cables from Havana stressing the general apathy of the people to what is going on around them make one shudder. What a chance for a clever under-cover communist to influence the indifferent electorate and deliver the country into Moscow's hands! Although driven underground, communists are probably still the strongest and most active party in Cuba.

CUBAN STRONG MAN RETURNS

Photo by Press Association

General Fulgencio Batista

Preoccupied with the damming of the communist tide along the thousands of miles of communist empire in Middle Europe and Asia, the United States must not be a victim of the false belief that the Western Hemisphere is secure from communist boring from within. The twenty sister Republics to the South of us are going through a period of transition from a semi-colonial economy, usually dependent upon a few commodities and external purchasing power, to a more balanced and mature economy in which industry and internal commerce are given more important roles. The stage reached differs from country to country. In Uruguay, the process has been nearly completed and the little Republic has emerged as one of the most prosperous and truly democratic countries in the world. Mexico, after almost two decades of revolution, sems to be over the hump, working out her problems in her own way and adjusting her democracy to her needs. It would be absurd to expect a Latin American country with a large Indian population to follow a strictly Anglo-Saxon pattern.

It is natural for the economic transition to be followed by shifts in the political balance of power. In our own country, it took the War Between the States to adjust politics to economic changes. In Argentina, there is a great spectacle of political power being transferred from the old landowner and Buenos Aires merchant class (*Please turn to page* 722)

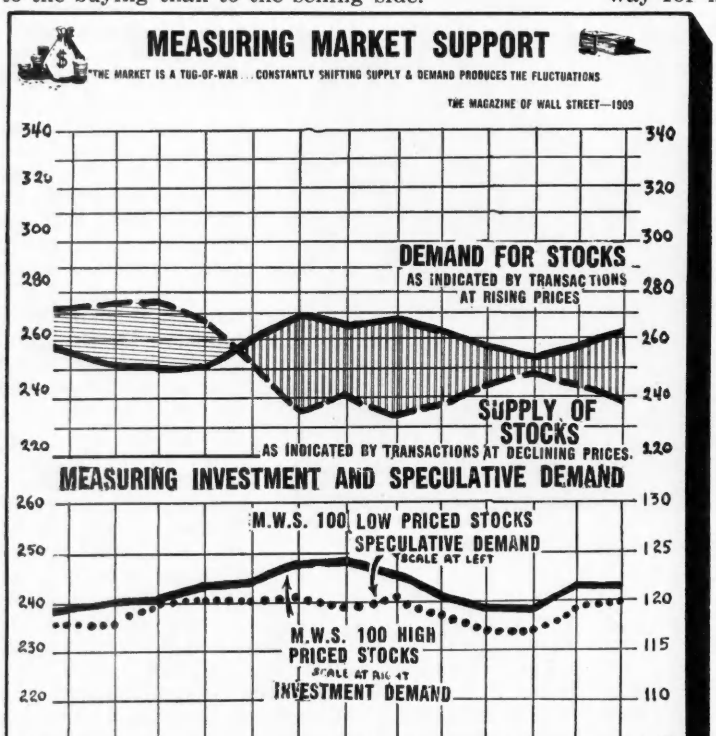
Market Selectivity Continues

Considering the environment in which it occurred, the market recovery since February 20 has been encouraging in the sense that it might have been worse. For the industrial list it does not yet amount to anything of positive significance, and continuation of superior rail action is questionable. Business activity appears subject to some improvement before long. A selective middle-road policy is still advised.

By A. T. MILLER

With continuing pronounced selectivity, average industrial, rail and utility stock prices gained a moderate amount of ground on balance over the last fortnight. Under leadership mainly of rails and utilities, upward tendencies from the February 20 reaction lows have now been maintained for more than three weeks, although, with the exception of rails, they have not been extended in recent days. The volume of trading has remained fairly low, with moderate day-to-day expansions or contractions reflecting somewhat more inclination by investors and traders to the buying than to the selling side.

No doubt the improvement is partly a technical rebound, the industrial average having previously fallen about 17 points from its January high in four weeks in reaching at least a temporarily over-sold position. However, an improvement in average stock prices which has been maintained for almost as long as the preceding phase of decline cannot be regarded as entirely technical, even though it has not been sufficiently dynamic to date to prove the case for more than a limited price swing in a market which has been without a sustained general drive either way for more than a year.



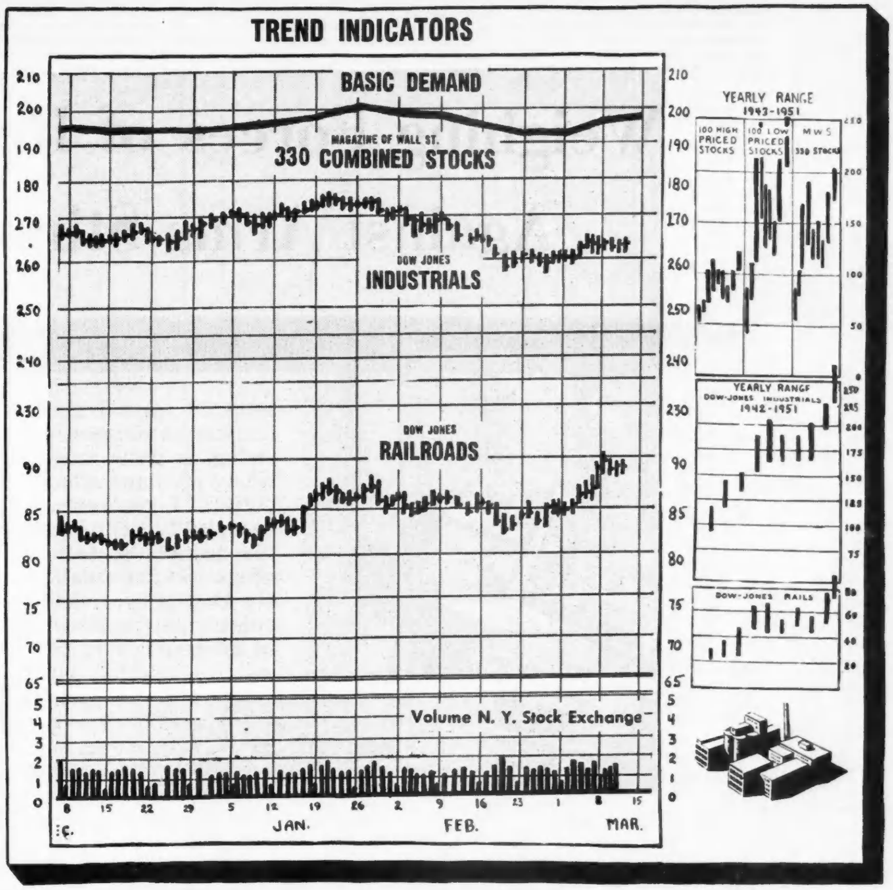
Market Under Minority Leadership

The market has been out of gear and under minority leadership in all recurring phases of advance for a long time. It still is. This is only partly a matter of differing patterns of industrial and rail performance, into which some market followers attempt to read trend significance. Until fairly recently, industrials had paced all advances since February, 1951, with rails lagging and being repeatedly halted appreciably short of their early-1951 high. These relationships have now been substantially altered. Rails met decidedly better support than industrials on the January-February sell-off, have subsequently bettered their January high by a moderate, but ample, margin, and at the end of last week had risen a small fraction above the major high recorded more than a year ago.

If rails go through more definitely, industrials will become the question mark that rails were during most of last year. So far the industrial average has recovered less than 40% of its January-February decline; and considerably more than half of its rise of the last three and a half weeks resulted from a one-day spurt on March 4 to a level which has not since been significantly bettered up to this writing. The utility average attained another new post-19446 high on March 8 and has receded only slightly from it in

more recent days; but its persistent rise, begun in the second half of last year after a long lag, has been a creeping affair throughout and still is. This is understandable because of the basic investment character of these equities.

Rail stocks have been aided by anticipation of a nearby boost in freight rates, which might or might not be disappointing. Unless it is surprisingly good, release of this news probably will be accompanied by considerable profit taking. The average has also been bolstered by sharp rises in a few rail stocks with an oil or potential oil angle through owned lands. Current year-to-year traffic comparisons are indifferent, full-year traffic prospects no better than fair. Even if the rail average should rise somewhat further, therefore, too much prophetic significance should not be attached thereto.



A good many stock groups which normally participate in bull markets have been more or less static for a great many months, remaining under earlier major highs. That is so of automobiles and auto parts, agricultural equipment, steels, liquors, electrical equipment, metal fabricating and machinery. Some are in the semi-depressed class, including textiles, retail trade issues, shoes and tobaccos. As we have observed before, the market needs new leadership to replace some of the dynamic groups of 1951 in which investors are now less willing than formerly to reach for stocks. Examples include chemicals, drugs, coppers, tires, paper stocks and, to some extent, oils in which recent demand, although above average, has become increasingly selective, with particular exploitation of stocks of crude producers with a stake in Canadian or Williston Basin development areas.

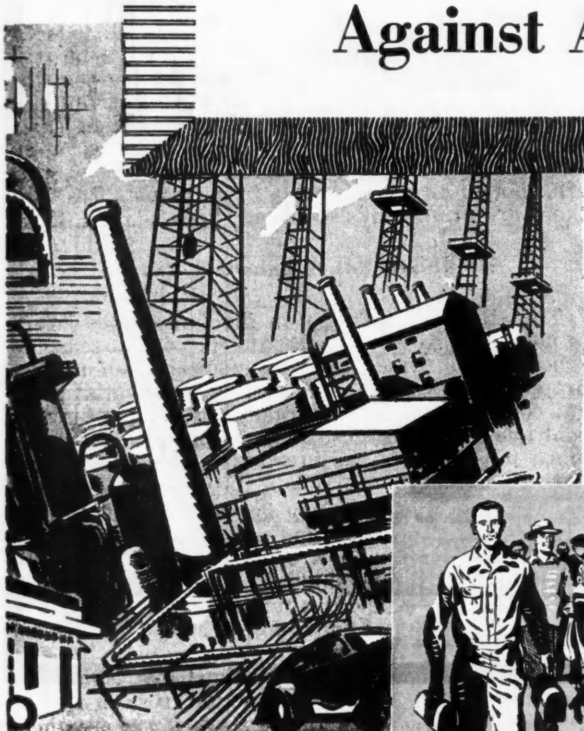
Reflecting shifting minority leadership, the resultant limited market breadth in advancing phases and the general waning of forward momentum, the average rate of monthly gain in 13 months or so from February, 1951, to the January high was roughly a fifth of that of the period from mid-1949 to early 1951, as measured by the most comprehensive indexes of composite stock prices. For more than a year, the recurrent shifts in investment sentiment have not been strong enough or lasted long enough to permit more than fairly moderate swings, either way, in the daily averages. Of course, this will not last indefinitely. Eventually the balance of fundamental factors will change decisively; but, at least from a medium-term viewpoint, the basis for a major economic shift is not apparent.

On the contrary, at least a moderate improvement in over-all business activity, accompanied by at least a partial recovery in commodity prices, seems a reasonable expectation for the months ahead, possibly beginning in the second quarter and becoming more general in the third. Since early-1951 the trend has been upward, even if not at any fast pace, in production of durable goods, due to record outlays for new plant and equipment and gradually rising defense spending; but downward in production of soft goods, reflecting inventory and price adjustments. Capital outlays are likely to remain around the peak level through the third quarter, perhaps through the year; and scheduled defense outlays this year are roughly $20 billion larger than last year's. So the peak in durable goods activity is still some distance ahead.

Revival In Soft Goods Probable

In the slower soft goods lines, adjustment has now been going on for a year or so, becoming severe in some, notably textiles, in recent months. It should be over before long, perhaps soon; and should be followed by some rebound in manufacturing activity on orders for inventory replenishment, since retail demand, if under that seen on the previous post-Korea forward buying surges, is far from depressed. Reversing the first-quarter cash surplus position, Government deficit spending will be a supporting factor in the second (*Please turn to page* 720)

Weighing Forces of Recession Against Arms Stimulus



By E. A. KRAUSS

There have been good and bad spots in business for some time, as everyone knows, but signs of a growing preponderance of deflationary forces have led to mounting concern whether the stimulating effect of the arms program as planned today can take up the slack in civilian industries and maintain overall activity at a high level. The question whether we may face a recession of some scope in 1952 hence is of more than academic importance.

Though business generally has been fairly well sustained, there are many evidences of cloudy economic weather ahead, most of them showing clearly the effects of lagging demand. The textile industry has been passing through what has been described as the worst depression in twenty years and does not yet seem ready to move ahead. Other soft goods industries are in the doldrums. Consumer durable goods have been hit as much, and probably more, by sluggish demand than by materials restrictions. Retail trade, though high, has dragged consistently behind expectations, with the latter probably unduly influenced by heavy inventories.

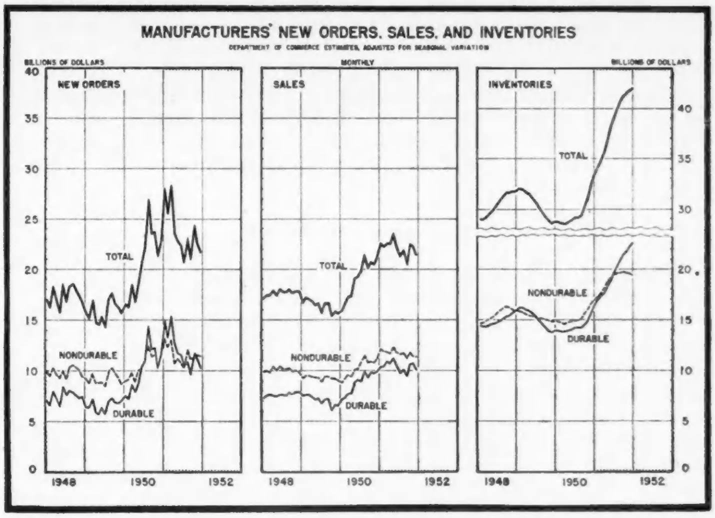
Even electric power production, always of barometric significance, has been showing exceptionally small gains over year-ago levels despite boom conditions in capital goods industries and accelerating activity in defense plants. Unemployment has been rising, or work weeks have been shortened, in areas where civilian cutbacks have not been offset by arms output. Look behind the Government figures on today's "full employment" and you will find a lot of idle hands. No less than eighteen large industrial areas and five smaller ones have been designated by the Department of Labor as areas of "labor surplus" eligible for special consideration in the allocation of defense contracts.

All this is symptomatic of today's unsettled business conditions. It is in the price field, however, where the evidence of deflationary pressure is most clearly defined. The downward course of commodity markets—both spot and future—indicates an abundance of many items which had been expected to become short. Actual shortages have been few and mainly confined to a handful of strategic metals, and even these are now easing.

Little wonder that Government allocators are giving up much of their scare talk. Instead, they are slowly relaxing many product controls and considering liberalization of restrictions on various raw materials formerly imposed on civilian goods manufacture, including steel, aluminum and even copper. The supply situation in rubber and lead is such as to warrant the lifting of controls entirely. Curbs on construction have also been relaxed.

Defense Stretch-out Frees Materials

What has happened to bring about this change? One reason for the increasing stocks of materials and lower prices is that sights were set too high for defense production. Materials were held out of civilian production channels but defense production lagged and materials began to accummulate. The latest "stretch-out" of the defense program is further lessening immediate demand—this in the face of a quite satisfactory expansion of metals capacity. Meanwhile civilian allocations had been set and materials could not be loosened quickly enough to take up the slack. Hence the plight of some civilian industries and the new pressure, even official willingness, to ease up on restrictions. Almost overnight, it seems,



the demand for metals has taken quite a nosedive.

In the face of this, however, civilian demand for both durable and soft goods shows few signs of perking up, and it is this that has business worried. Unless it picks up, and even more so if demand further slackens, the strange mixture of boom and hard times will likely continue with the prospect that recessionary trends may become more marked.

Trend of Demand Obscure

The fact is, it is far from clear at the moment whether the sudden shift in the metals supply picture is merely the result of temporary dislocations or reflects a genuine drop in metal demand on the part of durable consumer goods manufacturers. So far their response to offers of more steel has not been particularly spontaneous, perhaps because copper still remains a problem; but the reason *could* lie deeper. Having seen the lull in the non-durable goods field last year develop into a good-sized recession, they may not be in too much of a hurry to increase output, particularly so long as they have inventory troubles of their own.

Thus while the shifting of restrictions on supply in the metals picture, as previously cited, are largely responsible for the changed situation, one cannot dismiss the possibility that uncertain civilian markets have also something to do with it. Controls, after all, cannot suspend supply and demand factors though for a time they can muddle them up.

Right now, with the latest change in defense scheduling, industry gets more materials to make civilian goods. Worried businessmen get a chance to reappraise and adjust inventories in a more formal fashion, less influenced by tightening controls, which also permits a more realistic appraisal of demand prospects. There is another side to it, of course.

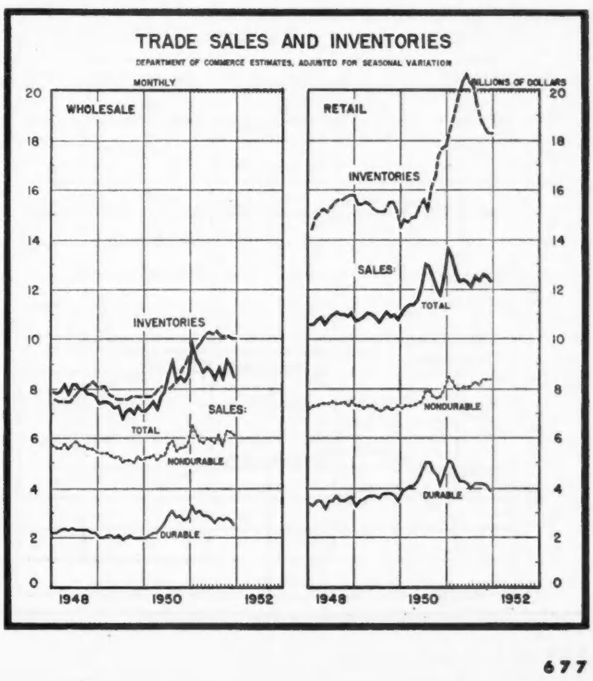
Steel leaders are publicly worried about sales problems and even talk about dismantling older mills. Aluminum fabricators are searching for customers whereas a short while ago, they were storming Washington for supplies. And copper men have been grumbling about Government moves to open up new mines, and are disturbed about replacement of copper by aluminum for many purposes.

The effects of the "stretch-out", in other words, are becoming definite enough to force businessmen to take account of it in their forward planning. And in this forward planning, the consumer remains a major figure, but also somewhat of a question mark —certainly more so than near-term supply factors which are becoming pretty well defined.

How, then, is the trend of business likely to shape up? Government spending will naturally remain an important and growing prop but the rate of spending increase will be somewhat slowed. As a result of the "stretch-out", rescheduling of deliveries and cancellation of certain projects has already occurred with some military contractors even forced to revert back to civilian production. But by and large, the economic effects should be healthy, preventing a dangerous overload during the period of maximum effort. *That is, provided that civilian demand holds up.*

For as military spending puts less pressure on the economy, the civilian sector must be relied upon more strongly to contribute its part to maintenance of a high overall level of activity. It is a set-up that pretty well rules out the possibility of a real sellers' market or another sharp dose of inflation. Near-term, instead, it may raise the question of a perhaps short but painful dip in business. The trend of industrial production has been practically stationary over the past six months and could well decline somewhat in the near future. During the second quarter, particularly, there could be a disconcerting downward wobble in the business curve, barring a fair-sized improvement in civilian goods demand. The outlook for the latter is not too promising.

Consumer goods industries in the main do not yet seem ready to move ahead. In the merchandising trade, the lack of any pronounced pick-up has been a disappointment. Good progress has been made in reducing retail and wholesale stocks but ample goods remain for quick delivery and retail sales are none



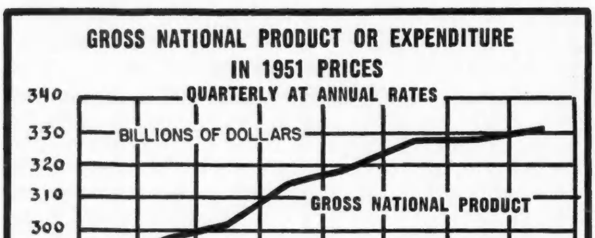
too vigorous. Hence retailers' commitments are low; they are not buying enough to absorb mill stocks of textiles and give the mills the lift they need. More mills in fact are temporarily closing down which seems to indicate that mill managers are not looking to any early improvement. Non-durable goods output thus may trend further down rather than up; and the down-trend may not be offset by rising production of durable goods.

Durables' Supply Lines Well Filled

Manufacturers of the latter also find demand slow and distributors well stocked. Their chief problem, as previously stated, has been heavy inventories and a shortage of customers rather than of materials—despite statements to the contrary. There is little to point to an early demand pick-up in most lines.

The shortage bogey no longer scares the customers who are well stocked and additionally pinched by high living costs, taxes, instalment and mortgage debt. Lower prices, more than anything else, could revive demand but lower prices are not in prospect. In the circumstances, reduced output forced by cutbacks will likely prove ample, perhaps more than ample, to satisfy foreseeable demand and relaxation of restrictions may add little to existing sales potentials.

Consumer demand, in short, is the most doubtful factor in the outlook picture. Even hard goods lines now must prove whether they are basically stronger than soft goods. The market for certain consumer durables has been in some sort of "balance" lately chiefly because restrictions prevented the overproduction which last year swamped the soft goods industries. With restrictions easing, the test will be whether manufacturers are willing to expand production and, of course, whether they can sell the increased output. Action on the former question will give a clue to what they think about their sales prospects.



What about other major spending components? Capital outlays by business are expected to continue high but current optimistic forecasts for the balance of the year may prove unrealistic. First quarter spending for new plant and equipment is estimated at an annual rate of some $22.9 billion, compared with a figure of $23.1 billion for all of 1951. But there is no assurance that this pace will be maintained.

Much will depend on the trend of business itself, and on possible further revisions of the arms program. There is every reason to believe that capital spending this year will remain substantial, but any decline—and there are signs that many companies are reconsidering their expansion plans—would naturally temper the current boom in capital goods industries built on the combination of business expansion and mobilization requirements. To date, industrial expansion has been the backbone of capital goods activity; it has in fact contributed greatly towards maintaining boom conditions during the initial stages of mobilization when defense impacts were quite moderate.

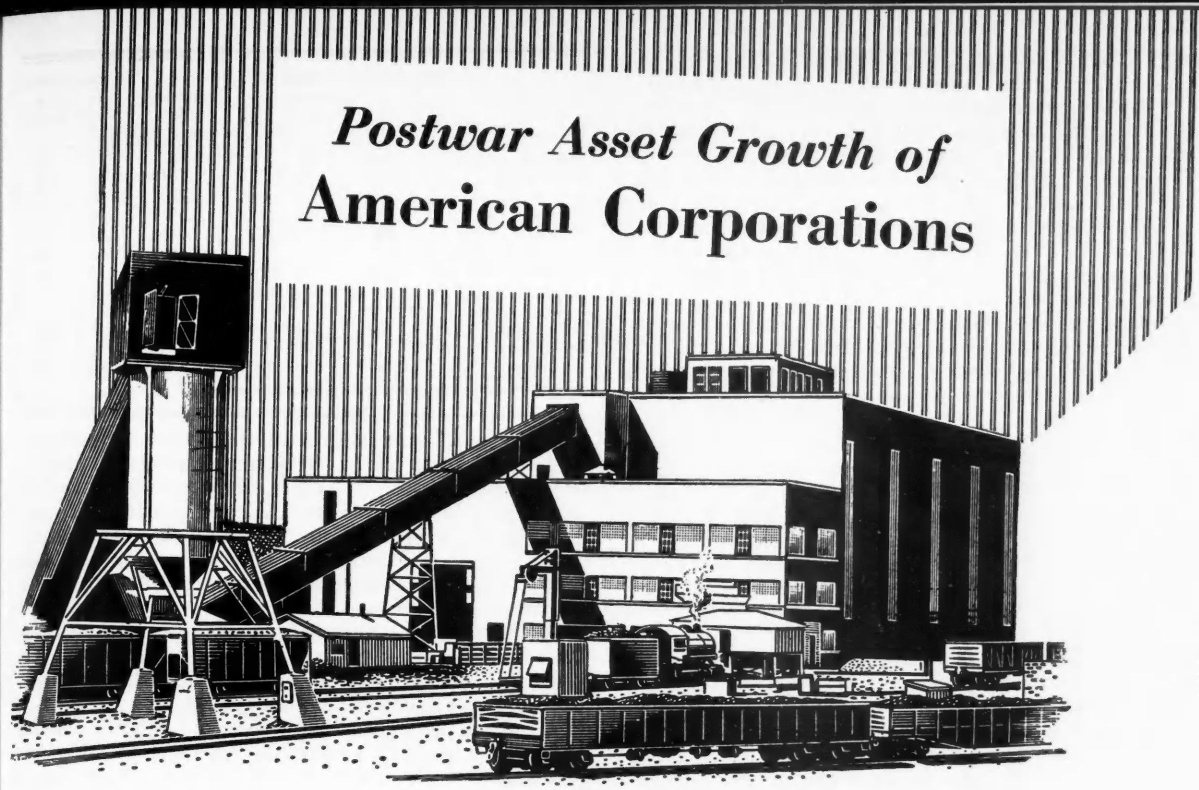
Residential Building Outook Hopeful

The outlook for residential building, another component of private capital investment, seems fairly good. The drastic slash earlier threatened is unlikely to materialize. With restrictions relaxed, 1952 should be another good year for housing activity with new starts for the year probably coming close to 900,000 compared with an original Washington ceiling of 650,000 and 1.1 million housing starts last year. So far the year got off to a good beginning with a 10% rise in housing starts in January and a 25% gain in the number of building permits. From a seasonal standpoint, this is not exceptional but it should indicate further strength for the recent pick-up after the preceding slow-down which was largely due to confusion over Government regulations.

In the aggregate of economic activity, the two types of demand—from the Government and private capital investment—can be expected to have a controlling influence. If they rise more than the other elements in the national output are likely to decline, further stability can be anticipated—but that still remains a big "if." In doubt is not only the vigor of consumer demand but we must expect a sharp drop in inventory accumulation which is likely to cease entirely. As manufacturers become more confident of an easier supply situation, they will react as consumers and distributors did earlier: they will cut their purchases to current consumption levels, and even lower where inventories remain burdensome. Some of this has been going on for some time in various fields.

In broad terms, and with exceptions chiefly among companies receiving defense orders—it can be said that the period of anticipatory buying is over. That will mean a sizeable cut in demand; inventory accumulation in 1951 amounted to over $9 billion. As a natural consequence, it (*Please turn to page* 722)

Postwar Asset Growth of American Corporations



By WARD GATES

The fundamental fact of the United States' economic development since World War II, too often obscured by the more picturesque and less creditable features of the political scene, is the amazing growth of the physical basis for the nation's well-being in peace and victory in war—the assets of the great American corporations.

In seven major industrial groups—motor vehicles, machinery both electrical and non-electrical, chemicals, textiles, beverages and stone, clay and glass, capital outlays between the end of 1945 and the end of 1951 exceeded the book value of their capital assets at the end of 1945. For all corporations the figures are $48 billion in postwar spending compared to $52 billion of gross capital seets at the end of 1945.

Obviously, we have not doubled chemical capacity or automobile manufacturing facilities since the war on top of our substantial prewar plants and the fantastic wartime growth. If we deflate the postwar expenditures into 1945 dollars we get some $30 billion of expansion, and if we blow up the 1945 book value for 1939-45 inflation we arrive at $62 billion. Even then postwar expansion is nearly half what the nation came out of the war with.

Allowing for gross retirements since 1945, which would naturally apply more widely to older plant and equipment, it can be safely stated that 40% of gross fixed capital today consists of plant and equipment added since 1945. This is advanced with especial confidence because much capital expansion has undoubtedly been financed from current expenses, escaping both the statistician, which is unimportant, and the tax collector, which is not.

Foremost in importance to the investor, of course, is the increase in earning power represented by this vast growth in producing assets. Production is wealth. The financing of this vast growth through retention of corporate earnings for reinvestment has reduced the investor's income, but in exchange it has backed his stockholdings with assets which will produce earnings for years to come.

The investor, naturally, hears with impatience the bare assertion that fixed assets will produce dividends for him. He can think of too many exceptions. It is true that this is a long-run consideration. A rush into fixed assets, when it is too enthusiastic or continues for too long, is a danger signal to the prudent man. It may mean that overcapacity has been built into the industry concerned, and that a long period of small dividends or no dividends at all is in the offing while the company waits for the country to grow up to it.

To mention only three industries where this may be the case, signs of approaching overproduction may be found in steel, aluminum and paper. Paperboard, most sensitive of the coarse paper products, has been as much as 40% below a year earlier in month-to-month comparisons of orders and production. Newsprint users' stocks in this country and Canada have been edging upward. The National Production Authority has been embarrassed to find that its easings of allocations of the nonferrous metals cannot keep up with the increasing easiness of supply. Steel production has a good way to go to attain the 118-million-ton capacity the mobilization authorities have urged upon the industry with 1954 as a deadline, and already steelmakers declare that the end of shortages in all grades is in sight.

In all these fields, and in the others which might be listed with them, however, certificates of necessity are still sought after, and plans for plant expan-

sion still go forward. For this there are two reasons, one rather better founded than the other. First is the lure of rapid amortization. In effect, this allows the company to borrow back its own earnings from the tax collector without interest for five years. Unfortunately, there seems little assurance that taxes will be lower five years hence than they are now.

The second and sounder reason is that the vast advances in technology in the last decade have made more plant than usual obsolete or obsolescent. A management which refuses to build a new plant to compete with its older ones will find itself in competition with some other management's new plant. Officials of U. S. Steel Corp. have recognized, for example, that when steel output drops back to 85% or 80% of capacity, its Homestead property will find it hard to compete with the new Fairless mill at Morrisville, Pa. When that time comes Big Steel's management is reconciled to closing Homestead.

A more basic concern of the investor is the dwindling amount of either sales or gross earnings which gets through to net or to dividends. This attrition is brought out strikingly in the following tabulation of changes in fixed assets, long-term debt, sales, profits and dividends of the 202 manufacturing corporations on which the Federal Reserve Board keeps up a continuing group study. The period is the four years 1947-50:

Group	Increase in Plant Account	Increase in-Long-Term Debt	Increase in Sales	Increase in Profits	Increase in Dividends
	(figures in millions of dollars)				
Food	442	138	3,567	28	34
Tobacco	55	93	364	43	19
Rubber	104	121	723	20	6
Petroleum	3,408	1,164	5,687	325	224
Chemicals	905	195	2,036	389	271
Iron and Steel	1,444	79	*1,456	198	68
Machinery (electrical and non-electrical)	823	35 (decrease)	4,312	510	82
Automobiles	424	65 (decrease)	8,665	1,081	557
Other Transport Equipment	147	52	831	145	16

*Eestimate: not provided by Federal Reserve Bulletin.

One must be careful not to try to get more out of statistics than there is in them. The modest change in four years in the rubber group, for one example, conceals the collapse of rubber earnings in 1949, and the remarkable rebound to new record figures. The machinery makers starved in 1946 during reconversion, and actually paid out more than three times their earnings in dividends. The same was true to almost the same degree of the reconverting automobile makers. Transportation equipment makers other than automobile companies actually had a loss of $25 million in 1946 and $17 million in 1947, and paid out $112 million in dividends in those two years.

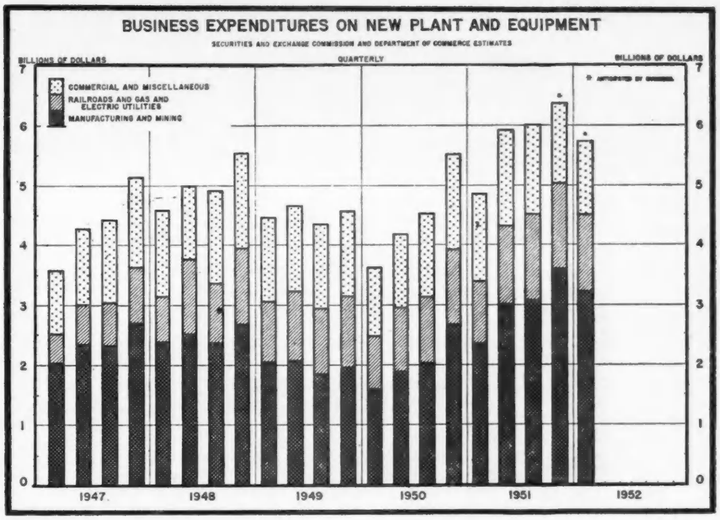
Still, such an amazing performance as the $3.5 billion increase in food sales, for a profit increase of no more than $28 million, carries its warning. A different sort of warning is contained in the petroleum and chemical figures. Here it may be time to ask the question suggested above: Are these industries getting ahead of themselves?

All these considerations define the problem of the company with vastly increased assets in the postwar period:

1. Is the company's expansion in line with its industry's, or significantly ahead? In any economic climate, the company which is annexing its competitor's customers is a better company to hold than is a loser's.

	Total Fixed Assets 1946	1947	1948	1949	1950	1951	Dollars of Sales per Each Dollar of Fixed Assets 1946	1951
	(Millions)							
American Tobacco	$ 22.5	$ 32.8	$ 41.8	$ 43.5	$ 43.7	$ 44.2	$ 3.39	$ 2.13
Carrier Corp.	5.4	10.6	11.1	10.7	12.9	14.8	4.34	5.46
Case, J. I., Co.	14.7	22.0	26.9	28.3	28.1	29.7	2.41	5.57
Caterpillar Tractor	20.6	39.9	54.1	57.4	69.1	87.6	6.23	4.49
Cluett Peabody	3.1	4.8	8.3	8.7	8.7	9.2	1.43	8.45
Commercial Solvents	10.1	13.8	17.6	17.8	17.9	20.9	4.14	2.92
Container Corp. of America	17.8	27.7	33.0	35.8	39.1	42.4	5.11	5.00
Crucible Steel Co. of America	29.6	37.1	54.2	57.9	57.3	65.5	2.97	3.09
Deere & Co.	35.9	52.0	63.9	62.9	62.5	66.8	4.00	6.47
Fairbanks, Morse & Co.	10.4	17.3	17.9	16.6	18.7	20.3	5.43	5.71
Hooker Electrochemical	7.6	11.1	13.0	13.5	17.0	20.5	1.97	1.87
Inland Steel	90.4	98.6	122.3	137.3	146.4	174.1	2.40	2.97
International Business Mach.	76.4	97.8	131.6	156.0	182.7	227.6	1.56	1.17
Johns-Manville	32.5	52.7	64.2	67.7	69.3	75.0	2.83	3.17
Mathieson Chemical	15.7	22.8	36.4	53.1	101.6	137.7	1.30	.66
Merck & Co.	17.4	19.9	27.0	30.5	32.5	51.9	3.53	2.31
Minneapolis Honeywell Reg.	8.0	9.9	10.7	12.4	17.9	22.5	5.74	6.00
Mohawk Carpet	4.7	5.5	7.4	8.8	13.7	20.4	7.08	3.41
Monsanto Chemical	49.8	83.9	99.9	100.1	102.3	129.5	2.00	2.10
National Distillers	21.8	25.3	29.8	36.0	44.7	83.8	20.65	5.57
National Gypsum	20.8	36.9	40.5	41.0	43.0	45.1	1.84	2.11
Penn-Dixie Cement	5.8	5.8	6.7	8.1	10.6	14.7	2.05	1.73
Rheem Mfg.	8.7	11.0	11.6	11.4	16.2	29.6	4.51	3.17
Sharon Steel	11.2	12.6	20.5	21.7	21.5	24.1	4.83	7.00
Sunbeam Corp.	1.4	1.8	4.7	7.2	9.0	11.7	11.14	5.25
Sutherland Paper	5.1	6.6	10.0	13.0	14.9	15.4	3.86	2.31
Texas Gulf Sulphur	19.6	19.7	20.5	23.9	23.0	25.1	3.51	2.85
Thompson Products	13.6	15.2	18.1	18.9	21.0	31.3	4.59	6.22
United Biscuit	8.9	12.7	19.3	24.5	27.2	31.6	6.83	3.39
Victor Chemical	4.0	9.0	11.8	12.8	13.6	20.3	4.83	1.61

2. Is the industry's expansion aimed at a specific temporary need, or is it based upon the great growth in population and income in this country in the last decade? Extremely cyclical industries like machinery or basic steel are forced to expand in times of emergency, but there are long dreary stretches between.



Margins of Earnings Vital

3. Is the company's margin of profit reasonably constant with relation to its earning assets? Here too good a showing is worse than too poor a one. High margins of earnings may speak of forced draft, of emergency demand which will come to an end. Too low a margin may be a warning that a market may need to be created, possibly under adverse circumstances.

4. What is the company's excess profits tax position? The vicious principle that it is possible for a company's profits, earned in peacetime in free competition for the buyer's dollar, to be excessive, was accepted with so little outcry that the country is probably saddled with it for a decade. The growth companies, of course, suffer most. The investor's satisfaction with growth must be tempered by the knowledge that the tax collector will get seven eighths of the added profits.

The large table on Page 680 is meant to help the investor answer these questions. It presents 30 stocks, alike in their large growth since the war, but with wide dissimilarities in their potential of immediately realizing on the added profits inherent in their greater capacity to add to the nation's real wealth.

American Tobacco, first of the list, has just about doubled its fixed assets since the war ended, but sales per dollar of those assets have fallen off by one-third. The fact is that in this field inventories of tobacco, imagination in advertising, and consumer income far outweigh fixed plant as income-producing factors. Failure to keep pace with the industry's growth would have been an alarming sign, but doing so is not corresponding cause for rejoicing.

Carrier Corp., nearly tripling its fixed assets postwar, has also managed to add a fourth to the amount of sales work each dollar of assets does in a year. While this company is not a major industrial entity, it does dominate its own field, and sells a service—air conditioning—more and more in demand in merchandising.

Caterpillar Tractor, whose postwar asset growth exceeds 325%, has suffered a decline of some 28% in annual sales per dollar of plant. This is not surprising; Caterpillar does much war work, on which the profit margin is seldom much more than half that on civilian product sales. More to the point for the future, Caterpillar has strengthened its position in construction machinery, earth-moving gear and farm machinery.

Container Corp. of America, with its 140% increase in fixed assets, provides a second example of how fast a company in a competitive, alert industry may have to run simply to stay in the same place. Its tonnage, as a percentage of the industry's production, stood still or declined a little. The company did consolidate its strategic position by moving into major consuming areas, and raised its dollar sales per ton by finishing some of its products more fully. Keeping its sales margin almost level is a tribute to this wisely-managed company.

Crucible Steel more than doubled its fixed assets in the period 1946-51, and contrived at the same time slightly to add annual sales per dollar of fixed assets. *Inland Steel,* a company some three times as large, showed a parallel experience, with a little wider gain in sales per dollar of plant. When it is considered that steel companies in general have been in a seller's market for over a decade now, and that they have made tremendous strides in cost control which entailed trifling costs, one wonders how long this basic industry can keep its balance between ever-rising wages and politically-depressed prices.

Chemical Stocks Defy Most Measures

Mathieson Chemical, with a growth in fixed assets of 777% between the end of 1946 and the end of 1951, illustrates the futility of trying to pin the soaring chemical stocks to a formula or capture them in a table. Annual sales per dollar of fixed assets has been halved from an already low $1.30. This in part registers the still-rapid growth of the company. Another plant was just finished at the end of the year, whose earnings will show up in the current half. Importantly, this plant, worth $25 million, carries with it an annual $3.75 million addition to the depreciation and depletion account, because it was built with a 75% rapid-amortization certificate. Still, the seeker of income must ask himself how long Matheison can continue to outrun EPT and continue adding to net per share. Present yield of nearly 5% on such an attractive growth stock is excellent. Moreover, it appears safe until such time as the ceiling on demand for chemicals is discovered. If that time ever comes, through plant expansion or diminishing over-all demand, all the chemical companies will find the important role played by fixed plant, which protects them in part from wage inflation, turning against them.

What The Investor Must Look for . . . .

To Safeguard His Position

By HAROLD S. TAYLOR

The air of uncertainty which has hung over the security markets since the beginning of the year has caused investors to ask whether the stock market has not reached a critical point which necessitates a more than usually searching examination of their positions. This is equally true of the investor who has been building up profits over the years, and the one who has made some unfortunate selections in the last year or so.

The first man is understandably reluctant either to share his hard-won gains with the tax collector or to risk their disappearance in a temporary worsening of the economic picture. The second hesitates to admit his own errors of judgment, but he is increasingly aware that a period may be approaching in which the lesser and weaker companies will find it difficult to hold on to a respectable earning power.

For the man who is convinced that inflation will override all downward-trending influences, that pension funds and investment trusts will provide whatever funds the market needs to keep on going up from this level, and that the good dividend payers which have been bought outright will never reappear in the market, there is no problem. He can hold about anything he owns.

For the man who is convinced that postwar civilian expansion is about to halt in its tracks, and that a sharp recession is inevitable as soon as the war boom runs out of steam, there is no problem either. The sooner he gets into cash, the more peace of mind he will have.

This article addresses the man who is perplexed by the economic scene at large, as well as by the actions of the market. There are ways he can prepare himself for the emergence of the next definite trend, without too great a loss of position in case it develops in either direction.

These are specific suggestions:

1. *Take at least a part of large long-term profits.* Since 1947, say, almost any well-managed portfolio has doubled in value. About one-fourth of accrued profits must be handed over to the tax gatherer whenever they are taken. The investor, whose own shrewdness and patience have brought the harvest to maturity, shrinks from sharing the reaping with this rapacious partner.

This is a natural feeling, but not exactly a logical one. The tax liability has accrued, and must be paid if profits are to be realized. The only way to escape any tax would be for the value of the security to shrink back to its original size. In that unhappy process the investor's three-fourths would disappear along with the tax collector's one-fourth.

The arithmetic of profit-taking is sadly familiar: Assume a purchase of 100 shares of a stock in 1947 at 50. It is now 100. Sale of half of it costs $650 in profits tax immediately. If the stock falls to 90, the original purchaser can reinstate his position for the remaining $4350 plus $150. For that $150 he has cut his ultimate tax liability in half. If, on the other hand, the stock rises to 110, regaining one's position costs $1150 in addition to the retained $4350. The reduction on tax liability is far from being an offset.

Yield Safety of Prime Importance

Fortunately, it is entirely possible to take one's profit's by selling all of one stock and keeping all of another. Tax liability remains on the stocks retained, but whatever portion of realized cash represents original investment is of course not taxed. The problem, then, is to choose the securities to sell and those to keep. This brings us to the second step:

2. *Buy assured earnings as cheaply as possible.* Some stocks have been moved by the recent market downturn into a very reasonable price range compared to their apparently perfectly safe long-term

yields. This safety of yield should be one of the reviewing investor's first concerns. It is measured both by stability of earnings and the margin of earnings over dividends.

While there is no absolute assurance of anything hidden in the future, there are adequate guides to comparison of one stock's safety of yield with another. Too great a yield, as everyone knows, is more often than not a danger signal, a sign that in the view of the more sagacious investors, earnings will soon turn down to bring the high-yielding stock into line. Exceptions to this rule are far fewer than hope sometimes asks us to believe.

Profit Margins Lower on War Work

Last fall, it was difficult to find safe yields of 5 per cent. Today it is not too difficult to find apparently well-protected yields of 6 per cent or better. The investor's search should be for assurance of continuance first. Then he can look, with skepticism, for high yields.

One vital factor, which 1951 reports should have impressed on everyone, is the varying impact of taxes. The growth industries which have been so popular have been accruing excess profits tax liability in many instances as fast as they added sales. In fact, this penalizing of the aggressive in favor of the torpid is not the least of the many valid objections to EPT. Provisions intended to prevent injustice to such companies are very tardily applied. Many corporations are just now retrieving sums taken from them in World War II days.

Another factor which may distort an earnings picture appears in the so-called war baby groups of industries. Actually, the defense program as administered post-Korea has had more effect so far in expanding the nation's capacity to produce steel, chemicals, paper, aluminum and machine tools in general than it has in advancing its ability to make modern war.

Profit margins on war work are in the first place just about half those on corresponding consumer durables; in the second place, they are produced under contracts providing that if the contractor bids too low, the loss is his; and if he bids too high, the renegotiators come along and take it away from him. Add the fact that Pentagon changes of mind have left many war contractors with half-finished war machines on which they can't collect until they are delivered, and the war baby loses much of its attractiveness.

Sorting out the bargains from the possibly over-priced issues must be done stock by stock. It is easy but dangerous at this moment to classify whole categories of stocks as defensive, and look no farther into the matter. Logic tells us, of course, that there are groups of stocks which contain the defensive issues. Generally speaking, these are the stocks of companies which fill non-deferable needs. Electrical power and dairy products come to mind immediately. So do the variety stores.

Such stocks maintain their dividends in bad times, and rebound faster at the first sign that bearish pressure is relenting. Still, it is a mistake to assume that these stocks will not sell off when other stocks sell off. Woolworth, as solidly defensive a stock as can be imagined, went from a 1936 high of 71 to a 1937 low of 34, and back to a 1938 high of 65. All the while the dividend remained stationary at $2.40.

The grim fact which looks over the shoulder of every investor reviewing his portfolio is that corporate earnings fell from an annual rate of $27.8 billion in the fourth quarter of 1950 to a rate of $16.7 billion in the fourth quarter of 1952. The impact of this drastic change must inevitably spread through the whole corporate and financial structure of the nation. It is possible to ascertain where this impact will be felt soonest and most weightily, and to order one's affairs accordingly.

While earnings, of course, have always ultimately decided the price of a security, as well as its value, the postwar period has seen unusually wide variances between earnings and dividends. Greater amounts of working capital are needed for operations at today's higher prices. Depreciation allowances based on prewar plant costs must be supplemented with sums that are unjustly classed and taxed as profits. Double taxation of profits, first to the corporation and then to the dividend receiver, makes it foolhardy to pay out earnings and hope to get them back as voluntarily reinvested capital.

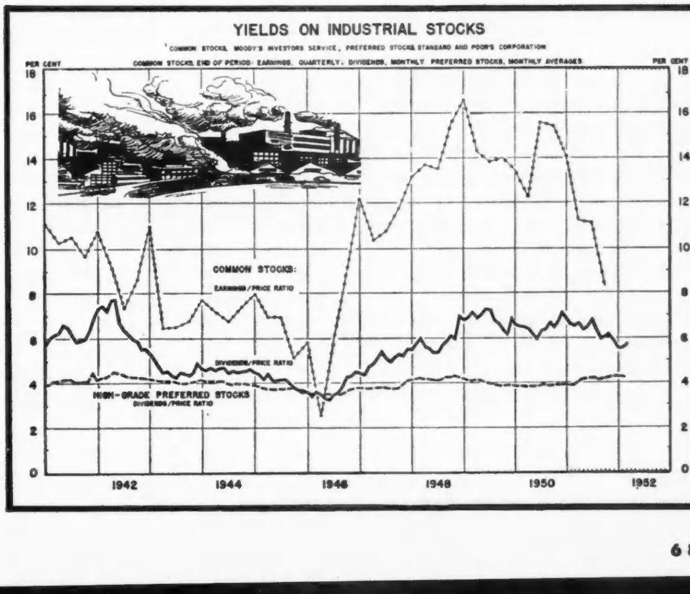
Current Factors That Demand Attention

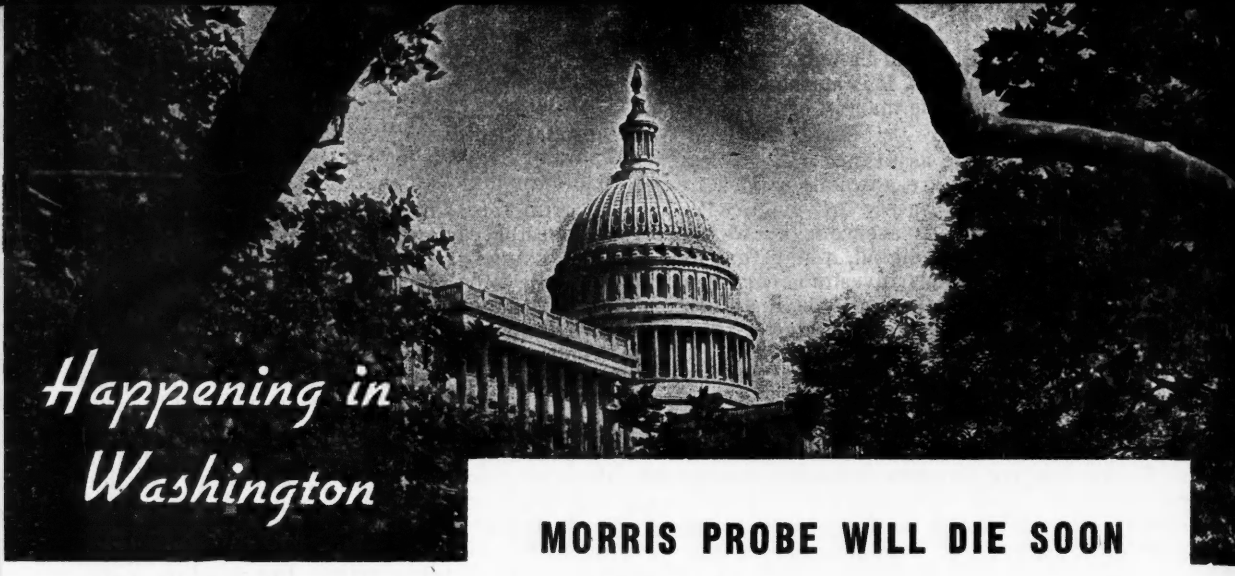
Those are only some of the factors which make this third point valid even though the thoughtful investor may object that it is hardly an economic consideration:

3. *Know Your Managements' Viewpoints.*

Even though dividends are bound to earnings, they are bound by a long and flexible cord. Two instances which come to mind at once are the resumptions of dividends on the Western Union A stock in 1948 and again in 1950, at a time when weighty problems still overhung the company, and the prompt passing of the dividend on American Woolen at its most recent meeting, while ample cash was still in hand.

In the one case directors were conscious of the claims of holders who had long been accustomed to rely on the company (*Please turn to page* 721)





MORRIS PROBE WILL DIE SOON

By E. K. T.

EXPECTATION is that the Newbold Morris investigation of wrongdoing in the federal government will blow up soon, and without visible achievement. It was ill-starred in its inception and the New York City republican leader perhaps was the worst choice of several that presented themselves to President Truman as potential directors of the quiz. Morris placed his finger on the weakness himself: "I talk too much."

He already has dealt publicly with Ambassador O'Dwyer and General Vaughan although he hadn't questioned either. He's announced Attorney General McGrath will be No. 1 target—why, he doesn't say. Capitol Hill is taking him lightly, meanwhile investigating Morris himself!

MORE THAN REASSURING WORDS from President Truman will be needed to convince the peoples of Russia and the satellite states that this country has no quarrel with them, but only with the practices of their leaders, following publication of excerpts from Maj. Gen. Robert W. Grow's diary. In language which admits of no other interpretation, he laid plans for war; it is futile to say he was merely theorizing, giving thought to hypothetical problems and their solution. During World War II heavy penalties were imposed on GI's who violated a rule against maintaining diaries which might fall into unfriendly hands. Grow was no GI, but a diplomat on assignment to Moscow. This magnifies the gravity of the offense.

ASSUMING that Rep. Wright Patman's subcommittee reads the material which it received in response to questionnaires on general credit control and debt management, policy decisions will be delayed for many, many months. The Treasury, the Federal Reserve Bank Board, the Council of Economic Advisers, and many lesser fry indulged hundreds of pages of discussion on the points raised by the Patman committee staff. Now that the material is in, departmental spokesmen called as witnesses before the committee cannot be expected to refrain from citing certain chapters by title, suggesting that such reference is an answer to questions which have put. Result: congressmen must read up, or give up.

ADDITIONAL DEFIANCE from within his own party will prompt President Truman to change his wife's mind and seek another term in the White House. He's pictured by intimates as itching to run but yielding to Mrs. Truman's insistence that they retire to Independence.

WASHINGTON SEES:

This is the season in which the government's statisticians and economists pull together the data and charts they have been gathering for many months, and attempt to interpret them, construct from them a foundation to support predictions of things to come, in the more adventuresome sense, assay things that exist in the more practical sense.

The business lapse which followed the Christmas rush has run its course, presumably; March 15 income tax payments have been made, and inventory-taking of general financial position should have been completed. The directors have been told by now what's left of last year's earnings—after taxes; they have been given the tools with which to reckon.

Preliminarily, the economists say the outlook is just about as had been expected. A rather safe analysis! Defense spending hasn't moved ahead any more rapidly than was expected—and slow movement was the expectation. The impact of that is still in the future.

New plant construction has given a condiment of prosperity to many areas, but the product and sale of the goods those facilities are to put together still is an imponderable. There's an inviting bid to plunge in the fact that income is way up, but there's a caution light when private debt is placed in parallel column to private income. Meanwhile the tax picture is bad but settling. Congress appears to be united on a policy of "this far but no farther."

The spring season reports should be interesting!

As We Go To Press

If they dared to do so, democratic party bigwigs would sic the income tax collectors on large corporations which have been purchasing newspaper space to put over the fact that basic American traditions are challenged in many official actions taken in Washington. But the Bureau of Internal Revenue is busy with its own problems; grand juries and congressmen are asking too many embarrassing questions, firings of men in high places are coming too frequently to suggest that the Bureau might point accusing fingers at anyone.

Perhaps no one talks with greater Administration indorsement on the straight political party line than does Charles Van Devander, publicity director of the democratic National Committee. (Van Devander is neither newspaperman nor government press agent -- he's privately employed, by the committee, yet he stands directly back of the President at each press-radio conference.) He remains behind, when the reporters have left, prepared to advise what reactions may be expected, ready to prepare answering material after consultation with the President and Press Secretary Joseph Short.

And here's Van Devander's latest: "When the campaign expenditures of 1952 are added up, the republican total ought to include -- but won't -- the millions of dollars that are being spent on so-called institutional advertisements which seek to sow distrust of the American government. These ostensibly non-political ads are fitted neatly into the republican scare words of socialism and bankruptcy. Advertisements of this sort are paid for principally by the taxpayers, since the companies deduct the cost from their taxable incomes as a business expense." A veiled threat -- thinly veiled!

Senate banking and currency committee has held a closed session, voted to conduct no hearings on extension of the federal rent control bill beyond its June 30 expiration date. Committeemen explained there is no need to have public sessions because the Administration is not asking for any changes in the law. It is a part of the Defense Production Act now, although it was in effect before DPA was adopted. Action is slated for later this month.

A neglected facet of the tidelands oil dispute is polished in a survey of the issues by the Council of State Chambers of Commerce. The attempts by the federal government to gain control of the rich reserves off coastal state borders is another effort to enlarge the empire of Washington bureaucracy, says the national trade association. Pointed out is the certainty that several new bureaus -- well staffed ones -- would come into existence and there's an army of lawyers to be recruited from among the "politically faithful."

And on the subject of federal employment, congress has found that it's cheaper in many instances to keep an un-needed agency worker on the job for two years than to drop him from the payroll. Average pay for government employees is about $3,000. A recent rundown of the costs of complying with Civil Service Commission regulations and other statutes affecting layoffs showed that it cost $159,000 to separate 25 persons from one agency. The agency spent almost five months and made 1,553 paper entries involving 164 workers, wound up by getting rid of 25.

While the government was finding out it's too expensive to get rid of people who aren't needed on the job because they're duplicating the work of others (if, in fact, doing anything at all) agencies all over Washington were more than offsetting the personnel reduction movement. Other data, taken from personnel department files, showed that it costs $127 for a government agency to recruit a typist. One of the reasons is found in the odd situation that government bureaus compete against one another for secretaries and stenographers; offering different salaries for the same type of work, and

different methods of compensation -- 40 "systems" in the latter category alone. For years, congress has been adding new methods without striking down the old. The result has been that they're all in force. The one most convenient to the immediate needs is applied.

If the responsible heads of private enterprise were to be found guilty of the boners found in government practice management would be dumped without ceremony. But the taxpayer-stockholder in USA, Inc., pays little attention to what goes on. For example, what would happen to the manager who might send his purchasing agent to law school for a full course of training to enable him to draw a contract (at company's expense, of course) while the firm's legal staff engaged in non-legalistic activity? Today, there are 87 military commissioned officers attending law schools at a cost of $870,000 a year -- taxpayers' money; and there are 3,200 lawyers on military duty who aren't assigned to law work!

The Interstate Commerce Commission is about to take a new look at the matter of transportation of agricultural commodities. Railroads, the motor transportation companies, farmers, and householders have a stake in the outcome. Agriculture has long enjoyed the benefits of favorable rates which the railroads established even before over-the-road competition was serious. Now with transcontinental highways within a few miles of farm-to-market roads, the truck is a serious competitor. But the railroads no longer appear interested in handling the farm traffic if it continues to involve rates which include many exemptions from normal charges. That suits the trucking companies all right. Farmers say they're being caught in the middle -- rail and truck are in agreement on a major issue, and that in itself is news.

A series of hush-hush conferences among military and control agencies is expected to result in firm decisions within the next few weeks to release steel and some other metals heretofore considered scarce, for construction of several types of construction now on the prescribed list and for increasing permitted production of metal-consuming goods. Copper will not be included; the shortage of that commodity continues although there have been overtures from producing countries, bait to the United States to buy in quantity at rates reduced below present levels, but still above peacetime prices.

Lead is one of the first metals to be completely decontrolled. Steel and aluminum production and stockpiling seem likely to move far ahead of the needs as they are being stated to the agency meetings. The military procurement officers, who have first call, say they won't need as much as they had first anticipated. Within the Defense Production Administration there still is an attitude of supreme caution. Called for are proofs, not broad-gauge estimates of fond hopes. Wilson, et al, won't let go until the evidence that it's safe is overwhelming.

When the price control act extension bill reaches the floor of congress, debate will center mostly on a proposal to set up automatic decontrol of commodities which are selling below the ceiling prices. The committees have received evidence that the number of items falling into this classification is not inconsiderable. Foes declare removal of ceilings would be an invitation to jack up prices. They point to the history of market performance following repeal of the OPA statute. The suggestion that there is skullduggery afoot in the pricing practices now being followed is clear. But more than 5,000 applications to raise ceilings are pending before OPS -- requests to come under the Capehart Amendment by adding certain cost-of-production figures, boost existing prices.

Weakness in the OPS system is that it's still operating in the main under the general price freeze of Jan. 26, 1951. Wages, taxes and numerous other cost items have gone up in the interim but until the federal agency clears away accumulated work, some producers won't clear expenses. And, also, there's a huge list of items that never should be under controls, are being taken out from under the law as rapidly as the facts can be examined. Canned worms. Tree stumps. Laughable, perhaps, but decontrol takes time and deserving price boosts await action. Congress is in a mood to cut OPS personnel; if it does, the movement will be even slower.

GUATEMALA vs. UNITED FRUIT

—Nationalism Plays Into Reds' Hands

By V. L. HOROTH

One of the greatest problems facing the Free World today is how to harness the rising tide of nationalism in those countries which are emerging from colonial status, such as Indonesia and Burma, or from economic semi-colonialism, like some of the Latin American Republics. Extremely touchy and jealous of their sovereignty, some of these countries, for example Iran, have not hesitated to provoke crises which could only weaken the Free World and benefit the communist orbit. Unfortunately, in the less-privileged countries which need help and guidance the most, there has been a tendency for the newly franchised classes to ally themselves with radical social planners or to fall under the spell of communist agitators and fellow-travellers. Such countries have not only failed to qualify for President Truman's Point Four program, but have done their best to convince the American enterpreneur that he is an unwanted, anti-social, capitalist ogre.

One gets such an impression from the statements of some Guatemalan officials and from the harangues of Guatemalan labor unions in their recent disputes with the United Fruit Company of Boston. Fortunately more and more Guatemalans are beginning to recognize that irresponsible anti-Yanqui nationalism is just killing the goose that lays the golden eggs, and that it invites economic collapse. The long and bitter dispute with the United Fruit Co. has now been settled. But as will be seen, the political and economic climate in Guatemala is still far from favorable to participation of American capital in the economic development and diversification of the country.

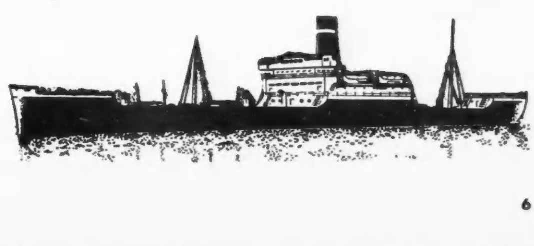
Size of American Investments

American investments in Guatemala—estimates of which range from \$150-\$250 million—have played an extremely important part in the development of the country. United Fruit, the largest investor, has holdings there of an estimated value of \$60 to \$100 million. Its exports of bananas account for about one-fifth of total Guatemalan exports (see table) and create some \$10 million in foreign exchange. The Company employs some 13,000 Guatemalans and affects the lives of some 75,000 more.

The company pays the highest wages in Guatemala, \$1.36 a day. Various social benefits—free housing, light, schools, hospitalization, etc.—bring its value to about \$2 a day. Government-run coffee plantations pay 80 cents a day, while the basic wage is 46 cents a day. The largest savings deposits outside of Guatemala City are held at Tiquisate, the company's Pacific coast plantation, and at Bananera, headquarters for the Atlantic coast operations. United Fruit has done a great work in teaching the Indian improved farm methods, in introducing new crops such as African oil palm, abaca and others, and in financing research in tropical diseases.

The second largest American company in Guatemala is the International Railways of Central America (IRCA), with investments estimated up to about \$90 million. This company, too, has had its share of labor difficulties; last spring, for example, its striking employees left some 2 million bananas to rot in box cars. The third large American investor, which is reported to have been threatened with expropriation at one time or another, is Empresa Electrica, a \$12½ million subsidiary of Electric Bond and Share.

Though the Guatemalans are ready to admit that



Production of Principal Products and Trade of Guatemala

	Coffee Exports (000 quintales)	Banana Exp. (Mil. of stems)	Abaca Prod. (Mil. lbs.)	Exports (Mil. dollars)	Imports (Mil. dollars)
1939	1,027	10.6	......	$18.6	$19.1
1945	1,115	8.8	3.9	30.4	23.3
1947	1,141	13.4	7.8	52.0	57.3
1948	1,018	12.3	10.7	50.2	68.4
1949	1,196	6.8	8.2	52.2	68.0
1950	....	6.7e	8.7	67.6	71.2
1951	....	5.6e	9.2	....	....

e—Estimate.

the American companies operating in the country are the best employer to work for, they have nevertheless been attacking them on the score that they constitute a state within a state. The foreign companies are also accused of pursuing selfish monopolistic policies—Empresa Electrica supplies more than 80 per cent of all electric power produced in the country, while IRCA and Unifruit have the monopoly of rail transportation and pier facilities. According to a Guatemalan quip, IRCA's motto is "every banana a guest, every passenger a pest". Apparently some Guatemalans are likewise irritated by the condescending air of the outsiders and similar slights which probably are more psychological than real.

Extent of Communist Influence

To understand this attitude, a sketch of the country's recent history may be helpful. Guatemala is a small country, about the size of Ohio. Its population of 2.8 million is less than half the Buckeye State's. The Ladinos—people of mixed Spanish and Indian origin who form about one-third of the population—are intensely nationalist and resent their country's being called a banana republic.

They are victims of an unfortunate inferiority complex. From its independence from Spain until the fall of the last dictator, General Ubico, the country was ruled by groups of landowners and businessmen. The big American companies made admittedly profitable deals with the dictators for keeping order. General Ubico was, however, a great improvement over his predecessors. During his regime, Indian peonage (bondage) was abolished, roads built, and new industries encouraged. Graft by public officials was severely punished. With his healthy regard for money, the General put the country's finances in order; Guatemala, thanks largely to him, has no external debt. But the courts were packed and labor unions were abolished, and whoever was against the dictatorship was simply branded a communist.

In 1944, General Ubico was forced to resign, and the people who under his regime were called communists came to power. Many of these people were and are regular communist party-liners, ready to undermine American position at Moscow's bidding. But the majority of these people have been spiritual socialists, believers in a curious hodge-podge of unworkable doctrines smacking of Argentina's Peronism. Under the much-revered President, Prof. Arevalo, who succeeded General Ubico, and under the present President, young Colonel Jacobo Arbenz, the ruling power has been in the hands of a small group of organized industrial workers.

Since 1944, the pendulum has swung the other way. Guatemala is now hurriedly trying to make up for lost time in welfare and labor legislation regardless of cost, and waiting not for understanding of their responsibilities by the workers, who are largely illiterate Highland Indians. In many respects the Guatemalan Labor Code goes beyond the labor codes of advanced Scandinavian countries. Apart from providing for collective bargaining and compulsory arbitration, it guarantees the workers vacations, severance pay of a month's wages for each year of service, etc.

That is not all. Many of the provisions of the Labor Code are expressly limited to foreign companies. In disputes the Government usually takes the side of labor. Last year the Guatemalan Congress was debating a law doubling the severance pay and another one to guarantee any worker who has served more than 25 years a lifetime pension of 75 per cent of his highest salary, payable in the event of death to his heirs.

High Production Costs

The effects of all this has been general confusion. Meanwhile the Arévalo and Arbenz governments have been spending freely for public works, housing and national enterprises. The Government-run coffee plantations (one-third of all fincas), taken away from their German owners during the last war, have been operated at loss and with declining efficiency. Since the ouster of General Ubico, the quetzal (dollar) circulation more than trebled and bank credit increased fivefold. Prices are rising steadily and, though there has been an uninterrupted succession of wage increases, the purchasing power of wages probably has declined. Rising prices, communist labor leadership and indulgent pro-labor Government have made Guatemala not only one of the most difficult countries to operate a business in, but also one of the highest-cost producers. Only the rise in the price of coffee, the country's chief export product, keeps Guatemala solvent. If anything should happen to coffee prices, economic collapse could readily follow.

As one of the Guatemalan newspaper put it recently, the labor unions wanted "to choke but not to strangle" United Fruit, which since 1947 has been faced every single year with the uncertainty of revising its contract with the plantation workers. Last August, plantation workers, goaded by their communist organizers, asked a $2.50 daily minimum

United States: Trade with Guatemala in 1950

(Millions of dollars)

Principal Imports		Principal Exports	
Coffee	$43.3	Cotton fabrics	$ 4.8
Bananas	5.1	Other textiles and fibers	3.5
Chicle, gums, etc.	.8	Motor vehicles	4.3
Abaca	1.9	Electrical equipment	2.3
Essential oils	1.2	Other machinery and tools	5.3
Lead	.5	Metal products	3.5
Leather and hides	.2	Dairy and other pdts.	2.1
Spices	.2	Grains, flour, etc.	2.5
Indian handcraft and other	.1	Petroleum and pdts.	2.0
Other imports	.7	Chemicals and medicinals	5.0
		All other pdts.	7.5
	$54.0		$42.8

(nearly ten times as much as the Highland Indian earns elsewhere). This would have increased the Company's production costs by about $14 million. During the next month, however, a bad cyclone struck the Tiquisate plantation, taking some 20,000 acres out of production. Some 4,000 men were laid off and the Company announced that it would not spend the $10 million required for rehabilitation unless it could be assured that wages could be stabilized for at least three years to justify the investment.

The unions took the matter to the Guatemalan Labor Court, which early this year ordered the company to rehabilitate the properties regardless and to pay back wages to the dismissed employees. When the Company failed to act, the Labor Court ordered its Pacific Coast properties auctioned to satisfy the wage claims. The auction, originally fixed for March 5, was postponed, and last week an agreement was reached under which the employees would be rehired at the present wage scale, and the contract would run for three years. The Company agreed to pay $650,000 in wage arrears (the last payment to be made in March 1954) and to freeze the present prices in the Company's stores. Meanwhile a vicious slow-down strike of the Company's dock workers at Puerto Barrios was also settled, and presumably sailings to Guatemala, the interruption of which hurt the country's tourist business rather badly, will be resumed.

Food Production a Problem

As was pointed out before, the settlement of this one dispute does not mean that American capital will begin to flow into the country in any appreciable amounts, or that Point Four grants will be given. There will no doubt be strong opposition on the part of American business to Guatemala's being given a loan from the International Bank. Yet there is hardly any other country in the Western Hemisphere which could derive more benefit from Point Four or an International Bank loan which the Arbenz Government has applied for to carry out road building and electrification programs.

A mountainous, tropical country with a great variety of climates and with wonderfully fertile volcanic soils, Guatemala can grow almost any known crop. The Mayan Highlands are well suited to truck gardening, the dairy industry, and livestock raising. But Guatemala's agriculture, which provides employment for some 75 per cent of the people, is hopelessly retarded and a drag on the country and especially on its industrial progress. A great many raw materials which could be raised at home must be imported and, since shipping costs are high, prices of domestic manufacturers (except the products of Indian cottage industries) are often higher than those of imported. As will be seen from the accompanying tables, the country must also import considerable amounts of food products; Guatemala City, for example, is reported to have less than half the milk required for its population of some 300,000.

In general, Guatemala's food production has been expanding more slowly than its population. This fact, no doubt, is still another reason for the rise of prices and for the discontent which is being so effectively exploited by the communists. Guatemala's per capita national income at $125 a year is higher than in Honduras, El Salvador, or Nicaragua, but not as high as in Panama or Costa Rica. Moreover, the income is unevenly distributed. The "Ladino" has an average annual income of about $250, but the Indians who form about two-thirds of the population earn less than $70 a year.

Point Four could do no end of good in providing the Indian with the proper tools and in weaning him away from his primitive ways of cultivation. The steep mountain slopes of the Mayan Highlands are largely cultivated in corn and beans. Because of the heavy tropical rainfalls, erosion is staggering. After a few years fields usually have to be abandoned and new areas cleared. Here is some of the world's worst soil mining.

Primitive State of Transportation

The second major obstacle to the country's progress is the lack of transportation. The villages are isolated and self-contained. If there are any marketable surpluses, the transportation costs by rail or motor are beyond the Indians' means. A third obstacle is the poor state of public health, which prevents a better regional distribution of labor. The best lands are located along the Pacific coast; they are flat lands and could produce substantial surpluses of corn, rice, and beans. But they are plagued by malaria except in the areas where the United Fruit Company has been successful in checking it. Professor G. E. Britnell from the University of Saskatchewan, who headed the International Bank's survey mission to Guatemala in 1950, pointed out that the present life expectancy of the average Guatemalan is only 36 years and that public health is a formidable national problem:

"Approximately one million people, or more than one third of the total population now live in the endemic malaria zone and of these 720,000 comprise the population of the Pacific Coastal region. Yet in the current government (*Please turn to page* 718)

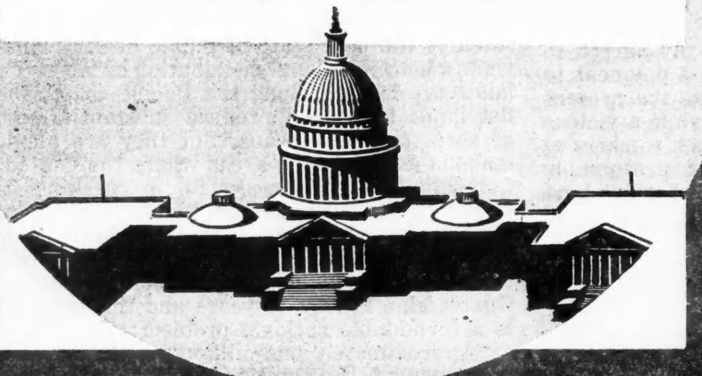
Guatemala: Estimate of Gross National Product 1947 - 1948

(in millions of dollars — quetzals)

	Million $	Percent
Agriculture		
Corn	$ 45	13.5
Coffee	26	7.8
Bananas	18	5.4
Beans	12	3.7
Lifestock	35	10.5
Other agriculture	54	15.8
Total	$190	56.7
Manufacturing and mining		
Food and beverages	$ 16	4.8
Textiles and Indian handcrafts	19	5.8
Lumber	4	1.2
All other manufacturing	7	2.0
Total	$ 46	13.8
Other Activities		
Private construction	$ 4	1.3
Wholesale and retail trade	23	7.0
Transportation	11	3.3
Housing	18	5.2
Other professional and dom. serv.	9	2.7
Total	$ 65	19.5
Government		
National	$ 30	9.1
Municipal and other	3	.9
Total	$ 33	10.0
Grand Total	$335	100.0

★ ★ ★

STOCKS IN A GOOD TAX POSITION



By J. C. CLIFFORD

With federal taxes now consuming large portions of corporate profits, their impact on dividends has become a matter of paramount importance to investors. The latter can no longer ignore the fact that they have acquired, against their will, a greedy partner – the government – which is intent on taking the lion's share of profits.

In 1951 this share, in many cases, was two and three times and even more than the amount of dividends left over for the stockholder. Under the circumstances, it is not surprising that he should view with growing bitterness the considerable disparity between his share of corporate profits and that taken by the government.

The irony of the situation strikes home even more since sales and pre-tax profits are at or near their highest in history, except for a few submerged industries. Normally, this is a situation from which investors might be expected to profit proportionately. Unfortunately, this is not the case in too many instances, a condition forcibly brought home to the stockholder when he comes face to face with the actual figures in the latest earnings statements. Some of these figures, comparing dividends and taxes, are quite staggering. A few illustrations will bring the point home.

Last year, Bethlehem Steel, which had the largest sales and profits on record, paid the huge sum of $18 a share in taxes and had only $4 a share in dividends; U. S. Steel paid five times as much in taxes – $15 a share – as it did in dividends, which were $3 a share; General Electric paid out about three times as much in taxes as dividends, the figures being $9 a share and $2.85 a share, respectively.

Lest the impression be created that only the big companies felt the impact, let us see what happened to some of the smaller ones. Koppers paid $12 a share in taxes and $2.50 in dividends; Clark Equipment, $17 a share in taxes and $2.85 in dividends; Bullard Corp. paid a whopping $20 a share in taxes and a meagre $2.50 in dividends, and Raybestos-Manhattan's stockholders had to get along with $3 in dividends while their company paid out $16 a share to the tax-collector. One can go down the list and find scores of similar examples.

Prime among the reasons for the higher corporate taxes, aside from the 5% boost in normal levies to 52% against the previous 47%, is that a larger share of profits are now declared excess. Under the new law, any amount over 83% of a firm's average annual earnings for the best out of three years in the period 1946-49, is taxed at 82%. This is what constitutes the excess profits tax. Under the old law, 85% was immune and the balance taxable at 77%. In other words, the excess profits tax has been increased by five percentage points.

While the law, with a few exceptions, applies to all corporations, the impact of the excess profits tax varies in direct ratio to the amount of earnings in the period 1946-49. Since corporations are permitted to select any three out of these four years as a base on which to compute their taxes, it is obvious that the higher the earnings in that period, the more protection the company has against excess profits tax levies. This is known as the EPT exemption base. A clear understanding of how it operates on his company has become one of the first considerations of the investor.

Extent of Shelter Varies Widely

By directing his attention to the EPT base, the investor has a better chance of deciding whether his company will have to pay a larger or smaller share of its profits in taxes. Naturally, he will favor issues representing companies in a more or less sheltered tax status.

This, of course, is not the sole basis of investment under present conditions. Many companies have a good EPT base but this is only of academic interest since their earnings are no longer as high as in the base period. Hence EPT does not operate in such

cases. This can be determined, of course, only after individual analysis.

However, along with numerous individual industrial concerns which are favored by a high EPT exemption there are certain groups which stand out as being in an exceptional position in this regard. Among these are the oils, railroads and public utilities.

Oil Companies Doubly Protected

The oil companies, in addition to possessing the important benefit of a high credit for depletion — 27½% — have a good EPT exemption base owing to their high rate of earnings in 1946-49. This consequently offers them satisfactory shelter against a high excess profits tax. This situation is not so uniform among the railroads, as earnings conditions have varied greatly among the individual roads. However, a considerable number have unusually high EPT bases. This is illustrated in the accompanying table which shows that some of these companies can earn as much as $15-$20 a share before the excess profits tax becomes operative.

Public utilities likewise have good shelters, but not so pronounced as many railroads. The expansion of earnings in the past few years is bringing rates of earnings considerably above the average for the base period 1946-49, with the result that an increasing proportion of their earnings is becoming subject to the excess profits tax. However, compared with many other groups, they still have a fairly wide margin left.

Among individual industrial groups, some of the television stocks have a fairly high EPT base. The same is true, though not to so marked a degree, of the building companies. Chain and department stores also have good exemption, but this is more or less academic as their earnings for the past year have not been sufficient, on the whole, to make them vulnerable to excess profits tax. The steel group occupies a middle position and while they have protection up to a point, their swollen gross profits beyond the 83% limit have subjected them to heavy excess profits taxes. The chemicals have, on the whole, a low EPT exemption which accounts for the enormous taxes they had to pay last year. On the other hand, some of the paper companies have a good EPT exemption.

One of the most irritating features of the excess profits tax is that it has been imposed in what is technically a time of peace. This is the first time in our history that this has occurred. Unfortunately, times being what they are, investors might as well resign themselves to continuation of this burdensome tax indefinitely. For that reason, it is worth while reiterating that they should become thoroughly familiar with its operation, for it is sure to play a part for some years to come.

Alternate Computations Muddle Problem

One word of caution should be uttered. The complexity of the EPT tax provision is so great that interpretation might prove somewhat impracticable if applied to specific companies without further analysis. Allowance therefore must be made, for example, for the size of the companies and the alternate methods of computation provided by the law in addition to the normal factors entering into earnings estimates.

To assist in arriving at a clear impression as to the influence of EPT on last year's earnings we have appended a table showing how this factor has affected a number of important corporations. We have included companies not only in a comparatively favorable tax position but also in a promising position regarding this year's earnings. The conjuncture of a good EPT position and the outlook for sustained earnings places this group, we believe, in a better than average market position.

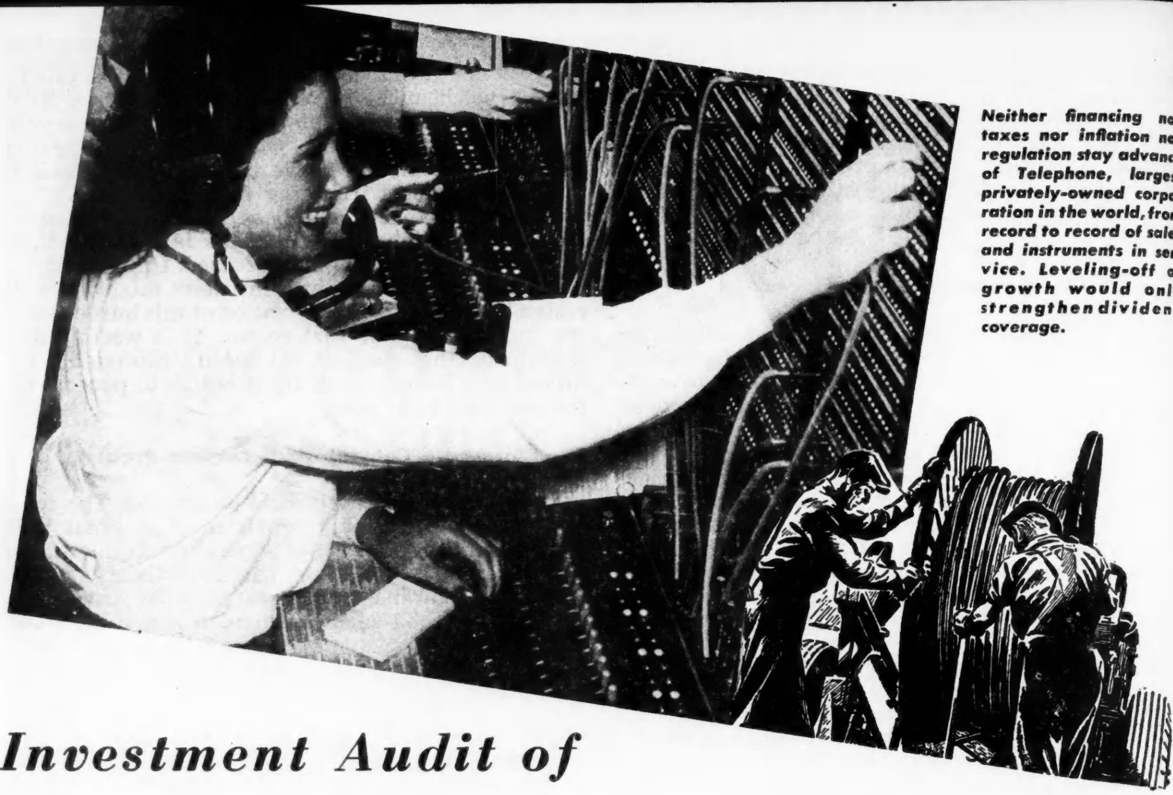
Several of the more important companies listed are described briefly herewith:

Louisville & Nashville R. R. Co. The 1951 EPT for this road is estimated at $8.72 a share. Actual earnings were reported at $9.74 a share, the second highest in the company's (*Please turn to page* 711)

Tax Factors Applying to Various Companies in 1951

	E.P.T. Exemption per Share	Earned per Share 1951	Earned per Share 1950	Div. 1951	Recent Price	Yield	Price Range 1951-52
Addressograph-Multigraph	$ 4.78	$ 6.84[1]	$ 7.22[1]	$ 3.00[3]	60½	4.9%	63¾-49
Admiral Corp.	5.21	4.97	9.73	1.00	27½	3.6	29⅝-20¼
Allis-Chalmers Mfg.	6.10	5.85[4]	8.72	3.50	49½	7.1	54½-40
American Viscose	4.65	4.16[4]	7.83	2.50	60⅞	4.1	78 -57¼
Atchison Top. & Santa Fe	10.05	13.83	15.64	4.50	79¾	5.6	82 -68¾
Cincinnati Gas & Electric	2.47	2.90	2.99	1.95	39⅞	4.9	41¾-31¾
Consol. Edison, N. Y.	3.98	2.26	2.44	2.00	33¾	5.9	34¼-30
General American Transp.	5.43	5.76	4.95	2.50	54¼	6.4	58¾-48¼
Great Northern Ry. pfd.	12.93	7.74	9.11	4.00	50	8.0	57¾-45¾
Illinois Central	19.40	12.72	20.83	3.00	61	4.9	75¼-51¾
Johns-Manville	5.30	7.75	7.22	4.25	67	6.3	73¼-47
Louisville & Nashville	8.72	9.74	10.39	4.00	56¼	7.1	59½-48½
McGraw Electric	7.00	5.53[4]	9.23	3,50	55¾	6.3	60¾-45½
National Supply	5.12	7.13	5.34	2.00	33½	5.9	34⅝-21¾
Niagara Mohawk Power	2.25	2.05[5]	1.96	1.45	26¾	5.4	26⅞-20¾
Ohio Edison	2.85	2.49[2]	2.93	2.00	34¾	5.7	34⅞-30⅛
Oklahoma Natural Gas	6.41	2.66	2.88	2.00	33⅞	5.9	36⅞-28⅝
Union Pacific	13.95	14.59	14.80	6.00	112	5.3	116 -97¾

1—Year ended July 31.
2—Pro Forma; giving effect to new financing.
3—Plus stock.
4—9 months ended Sept. 30.
5—Not adjusted for additional stock.



Neither financing nor taxes nor inflation nor regulation stay advance of Telephone, largest privately-owned corporation in the world, from record to record of sales and instruments in service. Leveling-off of growth would only strengthen dividend coverage.

Investment Audit of

A. T. & T.

By STANLEY DEVLIN

After three-quarters of a century of uninterrupted progress the greatest privately owned business enterprise in the country—American Telephone & Telegraph Co.—still is growing at a record rate. The saturation point in demand for telephone service, foreseen by pessimists a generation ago, is less evident now than ever. The explanation is to be found in the nation's phenomenal population growth and in its vigorous improvement in living standards. More families than ever before can afford a telephone—in fact, many homes enjoy more than one connection.

Whereas demand formerly was greatest in industry, now the sharpest growth trend is residential. Few houses in suburban areas are without service. Even in apartment houses, telephone installations are steadily growing as a result of consumers' preference for their own. Less and less dependence is placed on public phones in apartment hallways. At the rate telephone operating companies have enlarged their facilities since the war, it is difficult to believe that in some areas new connections still cannot be promised in less than eight to twelve months.

To handle rapidly growing demands, management has constructed many new telephone exchanges, enlarged others and added greatly to transmission equipment. Vast transcontinental facilities have been installed to provide for coast-to-coast relay of television programs. Expenditures for new construction last year approximated $1,059 million.

In undertaking financing of such tremendous growth, the company deals in funds measured by telephone numbers. This fact was emphasized recently when the company announced plans for an increase in capitalization to permit offering to its stockholders of a new issue of convertible debentures approaching $550 million. About a year ago stockholders put up $415 million through subscription to similar convertible debentures.

Criticism has been heard that repeated flotations of convertible issues tend to dilute earnings through rapid expansion in capitalization. This view overlooks the fact that funds provided by new financing are employed to enlarge services and thus assure additional revenues. There is a lag, of course, in developing earning power rapidly enough to maintain requisite return on capital, but all indications point to an eventual slackening in the rate of growth and a subsequent rise in earnings to compensate for the expansion in capitalization.

It may be enlightening to note the effects of last year's financing through the offering of $415,414,000 3⅜ per cent convertible debentures due in 1963. Something more than half of the issue was converted into stock before the end of 1951, and an additional $156 million of previous issues were converted into stock, so that debt was reduced by $371 million in the year. At the same time equity capital was enlarged by $513 million, reflecting cash premiums paid incident to conversion of debentures. That is to say, if debentures were convertible at $140, holders turned in their debentures at $100 and paid an additional $40 in cash to purchas a share of stock.

Reduction in Debt Ratio

Capitalization was enlarged to the extent of 4,560,000 shares in 1951. This total included 850,000 shares purchased by employees through the company's program of permitting workers to purchase limited

amounts of stock at less than the open market price on an installment plan. As a result of these changes, the proportion of debt in the Bell system capital was reduced from about 48 per cent to about 44 per cent. Management considers this proportion still too high. Its goal right along has been a ratio of about 35 per cent debt. The average for the last 30 years has been slightly over 35 per cent. As recently as 1945 less than a third of capital was represented by debt.

A greater volume of telephone service than ever before brought an increase in operating revenues of about 11 per cent, to a total of approximately $3,639.5 million. Operating expenses gained more than 10 per cent and came to $2,574.3 million. As a result net operating revenues gained slightly less than 10 per cent at $1,065 million. Taxes cut into earnings sharply with an increase of about 26 per cent on a system-wide basis, totaling $629.6 million. The operating tax bill approximated $19.70 a share on American Telephone's outstanding stock. On a share basis earnings for 1951 came to $10.99 as against $12.12 in 1950, based on the actual number of shares outstanding at the close of each period. Considering the heavy burden imposed by taxes, the dilution in earnings was not out of line with that experienced by general industry. Hence, it would seem fair to say that the addition of 4.5 million shares in 1951 had little effect in causing the lower share earnings.

Growth in plant facilities and in customers has been matched by the consistent enlargement of Telephone's family of owners. When the millionth stockholder's name was added to the company's rolls last year, it was the first time in history that an American corporation had reached that mark. The forthcoming financing undoubtedly points the way toward further significant growth in investment interest. Now that life insurance companies, trustees and other institutional investors have been permitted to turn to common stocks for investments, greater attention may be directed toward Telephone shares, yielding almost 6 per cent on their well established $9 dividend. Relevant statistical information supporting observations on earnings and financial developments may be found in the accompanying compilations. The chart illustrates fluctuations of the shares over recent years.

STATEMENT FOR THE MAGAZINE OF WALL STREET

by CLEO F. CRAIG

Today the Bell System operates over 37 million telephones. The truly amazing growth during the post war years increased the telephones in service by 15 million. Together with extensive installations used exclusively by the military and allied services, these millions of telephones add greatly to our Nation's defensive strength. Continuing to do our part well in the national defense will be our most important job in 1952.

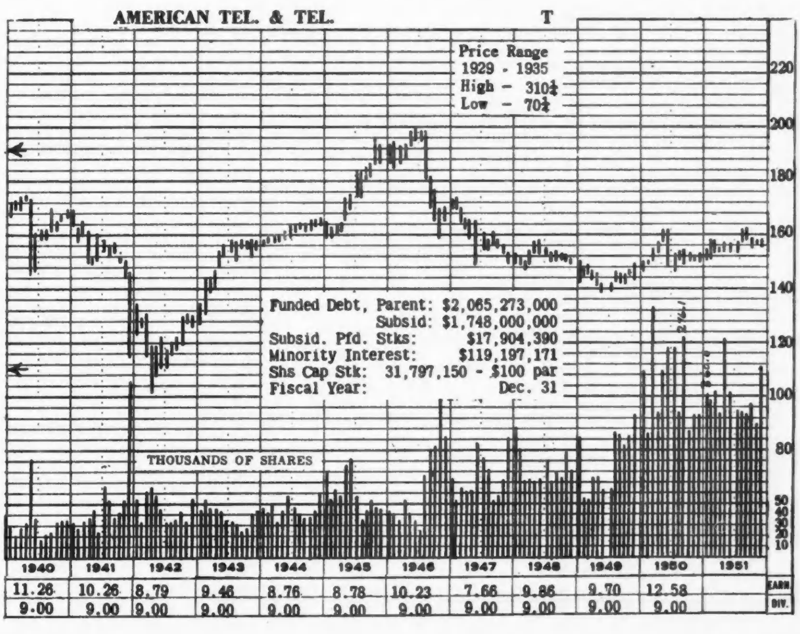
No let-up has appeared in the demand for more and better grades of telephone service. Long distance calling is at record levels. Military and Civil Defense requirements are very large and increasing. To meet such great demand the Bell Companies will need to continue for some time making large additions to the telephone plant.

More than $6.4 billion has been spent for new construction since the war. If sufficient raw materials are available, the Bell Companies will continue their heavy construction programs in 1952. Additional financing will be required and shareholders have been asked to approve it at their annual meeting April 16.

Descriptions of the company's spectacular postwar growth may give the impression that it has been easy. On the contrary, management has encountered difficulty in finding sufficient capital to finance such rapid growth. The problem of raising about a billion dollars annually with which to install some 2 million telephones is no simple matter. Providing the funds has become as much of a task as obtaining critical materials such as non-ferrous metals, of which the company is a major consumer. Management must pursue policies assuring adequate earnings to make the shares attractive to investors who will put up additional funds year after year. A great effort is made by management to convince state regulatory authorities of the need for granting rates sufficient to maintain an investment standing.

Rising wage costs in line with the trend in general industry, also have presented a serious challenge. To hold workers it has been necessary to meet recurrent wage increases in other industries. Consequent advances in operating expenses have necessitated appeals for rate increases. Still telephone rate increases on the average have totaled only 20 per cent since 1940, while the cost of living index of the Bureau of Labor has climbed about 90 per cent in the same period. These modest rate boosts have not retarded demand for telephone service.

Although residential construction declined slightly last year and may slacken further in 1952, there has



	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
EARN.	11.26	10.26	8.79	9.46	8.76	8.78	10.23	7.66	9.86	9.70	12.58	
DIV.	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	

Comparative Balance Sheet Items (Bell System)			
	December 31		
	1950	1951	Change
ASSETS	(000 omitted)		
Cash & Marketable Securities	$ 384,493	$ 639,471	+$254,978
Receivables, Net	383,392	430,112	+ 46,720
Materials and Supplies	109,221	118,165	+ 8,944
TOTAL CURRENT ASSETS	877,106	1,187,748	+ 310,642
Net Property	7,278,942	7,911,163	+ 632,221
Investments	533,891	558,664	+ 24,773
Other Assets	59,782	74,943	+ 15,161
TOTAL ASSETS	$8,749,721	$9,732,518	+$982,797
LIABILITIES			
Notes & Accounts Payable	$ 353,800	$ 428,983	+$ 75,183
Accruals	187,101	223,364	+ 36,263
Accrued Taxes	336,162	448,290	+ 112,128
TOTAL CURRENT LIABILITIES	877,063	1,100,638	+ 223,575
Other Liabilities	29,033	29,151	+ 118
Long Term Debt	3,632,954	3,707,317	+ 74,363
Capital Stock	3,611,670	4,182,373	+ 570,703
Subsidiaries Stocks	137,101	168,801	+ 31,700
Surplus	461,900	544,238	+ 82,338
TOTAL CURRENT LIABILITIES	$8,749,721	$9,732,518	+$982,797
WORKING CAPITAL	$ 043	$ 87,110	+$ 87,067
CURRENT RATIO	1.0	1.0	....

been no evidence of a letup in demand for new phone installations. Unfilled orders have shown little change from month to month, especially in rapidly growing industrial areas. More than 15.5 million telephones have been added to the Bell system since the end of the war. The number in service, now approaching 37.5 million, is double that in 1939. If residential construction should decline in the next few years and demand for new connections should diminish, the company would have an opportunity to consolidate its position and benefit in earnings from the vast enlargement of facilities already accomplished.

Expenditures on construction and improvement of operations in the last seven years have reached the huge total of $6,629 million, and improvements in service has stimulated demand for long distance calls. Conversations over interstate lines gained 14 per cent last year. The proportion of dial telephones now in service has reached 77 per cent, while operators at the end of 1951 were dialing 38 per cent of all long distance calls directly through to the distant telephone. Three hundred additional communities were lined to the dial system last year, bringing the total to 1,375.

In expanding long distance operations a radio relay system has been constructed which provides the means for transmitting television programs from coast to coast. The transcontinental relay system was opened September 4 last year. More than half the nation's population now is estimated to be within range of the 106 television broadcasting stations now operating. Tremendous growth still lies ahead for A. T. & T., however, in providing the transmission facilities for enlargement of television program distribution.

The Question of a Stock Split

Despite the assertion of investment counselors that financing problems would be simplified by effecting a stock split so that the shares would be available at lower prices, management has successfully resisted such pressure and has contended that a reduction in prices from around $150 a share to a figure in line with desires of small investors is unimportant. Thousands of employees have bought odd lots on partial payment programs, and the public has never shown any unwillingness to purchase the stock in small lots.

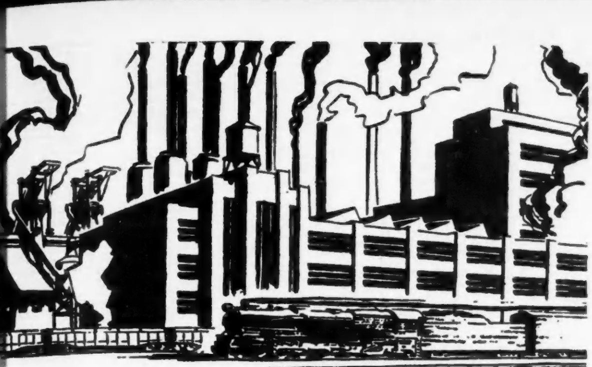
Reducing the price of the shares to bring about a smaller dividend payment also has been deemed unimportant. Officials of the company have observed that regulatory authorities seldom have criticized the $9 dividend as excessive. Employees never have sought higher wages merely on the assertion that the dividend paid stockholders is too high. Accordingly, the necessity for a stock split to accomplish objectives such as freedom from regulatory criticism or ease in financing has been reckoned too insignificant to be considered.

If a split should be deemed desirable it may develop some day in connection with a divestment by A. T. and T. of its large holdings of Western Electric Company, its manufacturing subsidiary. The Department of Justice brought action more than three years ago to segregate the manufacturing activities and the parent company's communications operations. The action which is still pending sought to break up Western Electric into three separate units in an effort to "reestablish competitive conditions" in manufacture of telephonic equipment. The Bell Laboratories would be set up as (*Please turn to page* 711)

Long Term Operating and Earnings Record (Bell System)

	Number of Telephones (Millions)	Total Operating Revenues	Net Operating Revenues	Total Operating Taxes	Interest	Net Income	Net Profit Margin	Net Per Share	Div. Per Share	Price Range High Low
		(Millions)								
1951	37.4	$3,639.4	$1,065.1	$629.8	$117.8	$364.8	10.0%	$ 11.76	$ 9.00	163⅛-150[1]
1950	35.2	3,261.5	927.1	499.4	113.5	346.9	10.6	12.58	9.00	161¾-146¼
1949	33.3	2,893.2	644.4	346.1	112.2	232.8	8.0	9.70	9.00	150⅝-138
1948	31.3	2,624.8	546.1	292.4	90.4	222.4	8.4	9.86	9.00	158⅝-147⅞
1947	28.5	2,224.5	431.1	245.6	62.5	161.1	7.2	7.66	9.00	174¾-149¾
1946	25.7	2,093.6	502.9	257.4	41.9	208.5	9.9	10.23	9.00	200¼-159¾
1945	22.4	1,930.8	656.9	399.9	45.8	177.0	9.1	8.93	9.00	196½-157
1944	21.5	1,769.7	633.3	417.4	47.5	169.8	9.5	8.89	9.00	166⅞-156
1943	21.2	1,648.0	601.1	372.9	51.0	177.7	10.7	9.50	9.00	158¼-127¼
1942	20.0	1,469.2	536.5	320.5	50.6	170.8	11.6	8.79	9.00	134¾-101¼
10 Year Average 1942-50	......	$2,355.4	$ 654.4	$378.1	$ 73.3	$223.1	9.5%	$ 9.79	$ 9.00	200¼-101¼

[1]—To February 28, 1952.



★ FIVE ★ Defensive Stocks

—Affording Safe Income

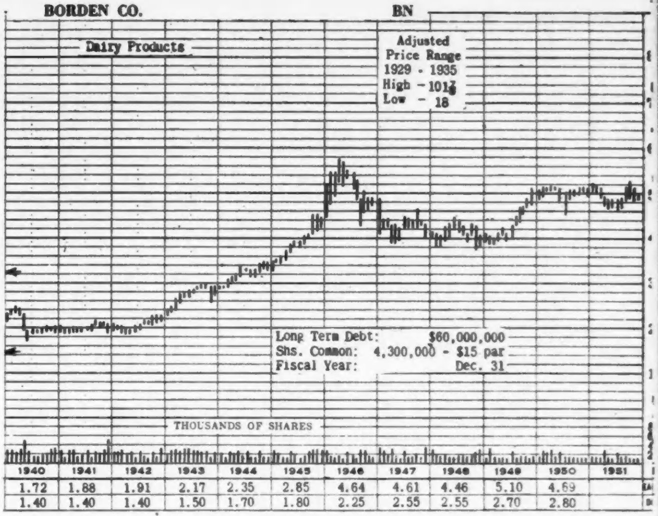
Selected By OUR STAFF

The current uncertainty regarding the future of corporate profits, which raises the question as to the outlook for dividends, is causing investors to scrutinize their holdings more carefully, with a view towards replacing the less desirable issues with those in a safer position, both as to income and market stability. The latter issues are defensive in character, denoting that they are in a comparatively sheltered position. Normally companies of this type do not face the extreme fluctuations in business that characterize many other industries.

To assist our readers in making selections of this order, we present a group of five stocks, each representing a strong and well-seasoned company in an essential industry. The record of these companies over a period of many years indicates that they have enjoyed satisfactory profits during practically all kinds of business conditions.

Stocks of this type naturally have appeal to investors seeking issues of a conservative kind mainly for purposes of income stability. Three of the five stocks listed yield about 5.6%, one over 7%, and one slightly under 5%. The average yield on the five is 5.8%, making a good average return.

Adding strength to the selections is the fact that these companies are leaders in their respective fields, with consequent assurance of long-range continuity in their activities. Thus, Cleveland Illuminating Electric Co. is one of the nation's outstanding public utilities; Borden Co. is one of the two great dairy companies, with its business being diversified on an increasing scale; Commercial Credit Co. is one of the two leading finance companies, with an impressive earnings record; F. W. Woolworth Co. has a long and stable record of earnings and dividends, and Sterling Drug Co. is one of the best established and strongest in the pharmaceutical field. In the following pages, we describe these companies briefly, together with essential data relating to their earnings, dividends and financial position.



BORDEN COMPANY (THE)

BUSINESS: The company is the second largest in the dairy products business, with activities spread throughout the United States and important sections of Canada. Basic activities are the processing and distribution of fluid milk and the manufacture of ice cream and miscellaneous evaporated milk products.

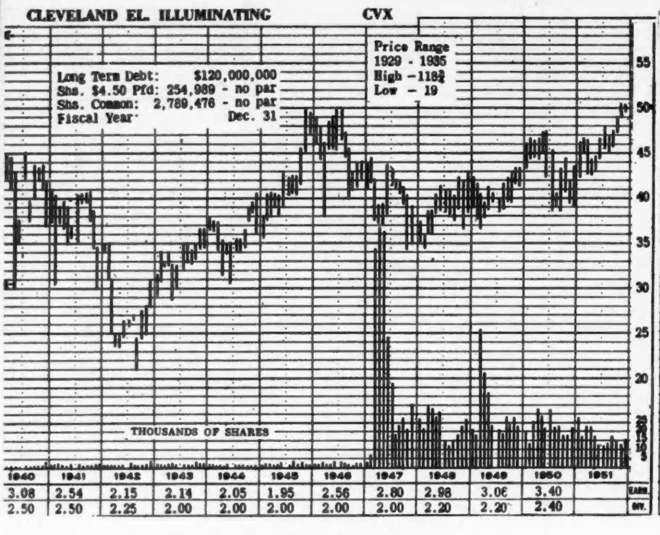
OUTLOOK: The company has an extremely well established earning power. However, despite an increase of approximately 20% in sales during the first three quarters of 1951 (later figures are not yet available) it is probable that full year's net was lower than the year previous. It is estimated that earnings were $4-4.25 a share compared with $4.69 a share in 1950, the decline being due to the increase in income taxes, with reports for the first three quarters indicating that increased taxes cut net about 8%. This is about on a par with recent experience of the other large dairy companies. While the company is principally in the dairy business in which it has a powerful position, recent developments indicate that it is becoming an influential factor in the chemical industry as well. One division operates seven plants and supplies such miscellaneous industries as: plywood and furniture manufacturers, plastic molders and glues and many others. This added diversification in the products will tend to broaden earning power, and make the company somewhat less susceptible to fluctuations in the price of dairy products. Regulation of the price of raw milk under the Department of Agriculture's marketing orders has narrowed the profit margin, but in more normal times the company will regain its flexibility and thus have better control over costs. Despite these difficulties, Borden has reported satisfactory profits even since the stiff regulatory measures were put into effect. It is significant that since the end of World War II, earnings have averaged about $4.70 a share, a level approximately twice that during the war years. Financial position is strong with cash and marketable securities of $46.6 million (1950 figures) about 124% of current liabilities. Working capital of $101 million is double that of a decade ago. With solidly entrenched earning power, the outlook for the company seems quite favorable.

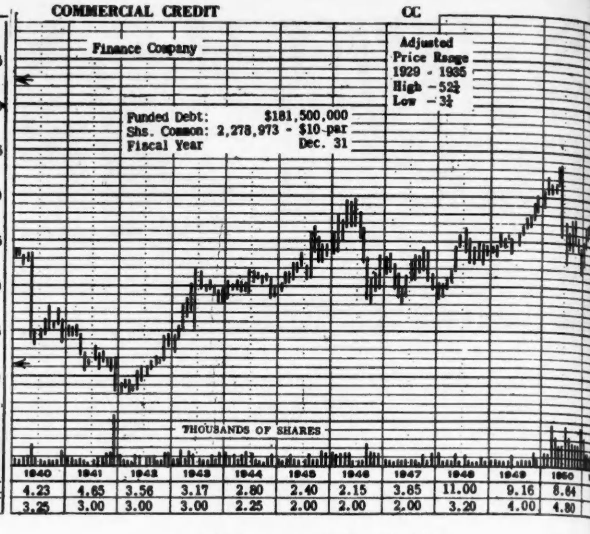
DIVIDENDS: The company paid dividends of $2.80 a share in 1951 and 1950. This included a year-end extra of 40 cents a share. The current regular rate seems secure.

MARKET ACTION: Recent price—50, compared with a 1951-1952 range of High—52, Low —46. At current price, the yield is 5.6% based on the rate paid in 1951.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1941	1950 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 24,810	$ 46,677	+$ 21,867
Receivables, Net	18,090	36,876	+ 18,786
Inventories	28,695	54,906	+ 26,211
TOTAL CURRENT ASSETS	71,595	138,459	+ 66,864
Net Property	69,378	109,571	+ 40,193
Investments	3,209	9,756	+ 6,547
Other Assets	903	1,238	+ 335
TOTAL ASSETS	$145,085	$259,024	+$113,939
LIABILITIES			
Accounts Payable	$ 12,528	$ 26,460	+$ 13,932
Accruals	3,358	7,378	+ 4,020
Tax Reserve	5,016	3,266	— 1,750
TOTAL CURRENT LIABILITIES	20,902	37,104	+ 16,202
Other Liabilities	335	....	— 335
Reserves	11,465	23,251	+ 11,786
Long Term Debt	11,499	44,400	+ 32,901
Capital Stock	65,950	62,562	— 3,388
Surplus	34,934	91,707	+ 56,773
TOTAL LIABILITIES	$145,085	$259,024	+$113,939
WORKING CAPITAL	$ 50,693	$101,355	+$ 50,662
CURRENT RATIO	3.4	3.7	+ .3





CLEVELAND ELECTRIC ILLUMINATING COMPANY

BUSINESS: This large public utility concern operates in Cleveland, Ohio, and the surrounding rural and suburban areas for a distance of about 100 miles. It supplies approximately 86% of Cleveland's electricity and about 90% in the general territory it serves. It also supplies steam heat for the down-town business sections of the city, and generates practically all its electric energy requirements.

OUTLOOK: Earnings have shown steady progress since the end of World War II and have risen in a step-like manner from $1.95 a share in 1945 to last year's record of $3.68 a share. In 1950, earnings were $3.40 a share. The company, like the other utilities, is favored by a high EPT exemption rate, estimated at about $3.40 a share. Repeal of the excise tax on public utilities is considered an important element in aiding the earnings picture. In recent years, regulatory authorities have adopted a more liberal attitude towards permissible rates, with the result that revenues have increased substantially. The expansion program has involved the outlay of $110 million for the five years ended 1950, with presumably a proportionate increase in 1951 though figures for that year are not yet available. However, it is known that the company last year placed in operation a 150,000-kilowatt addition to the Lake Shore plants, increasing generating capacity to 1,134,000 kilowatts. Serving a growing population of 1.6 million and the highly industrial area around Cleveland, the company is in excellent position to derive additional benefits from the new sources of revenue being opened up with the increasing industrialization of the region. In this territory are important steel and iron manufacturers and an entire complex of industries, ranging from electrical and automotive products to chemicals and the refining of petroleum. To meet the growing electric power requirements of the area, the company last year authorized a budget of $100 million for capital expenditures which will not be completed until the end of 1953. The company is one of the outstanding public utilities and its securities enjoy investment rating.

DIVIDENDS: The company pays $2.40 a share, which has been well covered by earnings in recent years. It is expected that part of the financing planned to meet new fund requirements will be through a stock issue this year.

MARKET ACTION: Recent price—50, compared with a 1951-1950 range of High —52⅝, Low—42¼. The current yield is 4.8%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1941	1950 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 11,504	$ 14,071	+$ 2,567
Receivables, Net	3,820	4,712	+ 892
Materials & Supplies	3,647	12,098	+ 8,451
Other Current Assets	350	571	+ 221
TOTAL CURRENT ASSETS	19,321	31,452	+ 12,131
Utility Plant	160,100	270,668	+ 110,568
Investments	222	327	+ 105
Other Assets	2,315	1,361	— 954
TOTAL ASSETS	$181,958	$303,808	+$121.850
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 9,896	$ 17,163	+$ 7,267
Total Deferred Credits	1,812	1,336	— 476
Reserve for Depreciation	37,367	73,942	+ 36,575
Other Reserves	714	019	— 695
Long Term Debt	50,000	95,000	+ 45,000
Preferred Stock	25,499	25,499	....
Common Stock	40,871	56,446	+ 15,575
Surplus	15,799	34,403	+ 18,604
TOTAL LIABILITIES	$181,958	$303,808	+$121,850
WORKING CAPITAL	$ 9,425	$ 14,289	+$ 4,864
CURRENT RATIO	2.0	1.8	— .2

COMMERCIAL CREDIT COMPANY

BUSINESS: This is the second largest concern in the installment financing field. Lending activities are extremely varied and cover such fiields as installment financing of automobiles, oil burners, refrigerators, etc.; also wholesale financing, receivable financing and factoring. It is also engaged in commercial insurance.

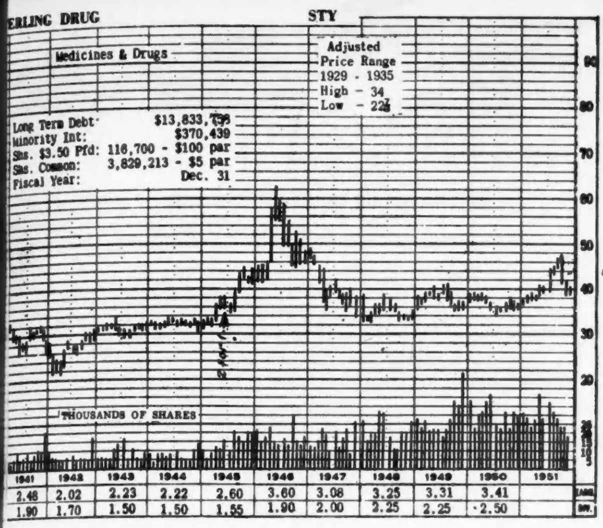
OUTLOOK: The company has been affected to some extent by governmental credit restrictions, especially in automobile financing. However, earnings continued on a remarkably high plane despite this handicap and were $8.65 a share in 1951, approximately the same as in 1950. In 1949 they were $9.16 a share. Though operating profit at $44.9 million was almost $4 million higher than in 1950, an increase in income taxes to $24 million against $19.8 million absorbed the difference, leaving earnings where they were the previous year. A feature is that the company has a high EPT base, officially computed at about $7.75 a share. A more detailed view of the company's operations shows that net income from its finance companies increased from $10.9 million to $11.8 million and net income from its manufacturing companies increased from $3.5 million to $4.5 million. However, income from insurance company subsidiaries dropped from $5.3 million to $3.2 million, due largely to losses incurred as a result of a substantial rise in automobile collisions. To offset such losses, the company has applied for higher rates not only on automobile insurance generally but also on fire, theft and collision insurance. Reserves of $66.7 million at the end of 1951 consisted of $23.4 million unearned income, $11.8 million for credit losses and expenses of finance and insurance companies, and $31.3 million unearned premiums of the insurance companies. While general factors affecting the company's operations are necessarily linked up with government credit policies, the extremely experienced and able management has shown its skill in these confused times and can be counted on to maintain the position of leadership which it has occupied for years.

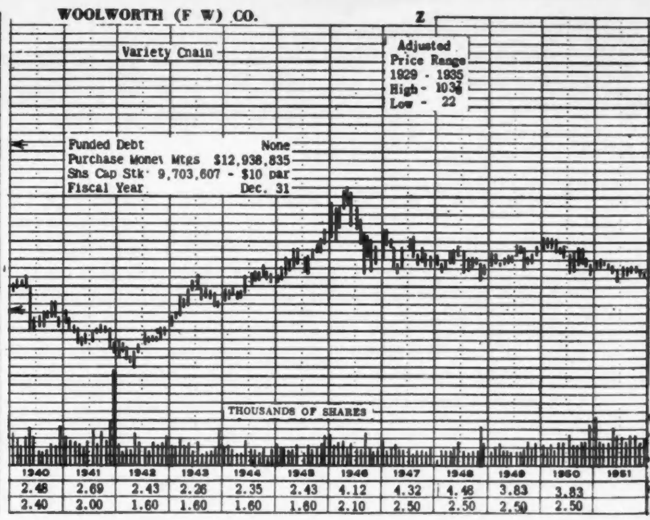
DIVIDENDS: The dividend rate is conservative and is protected by a wide margin of earnings. Last year's payments were $4.80 a share and should be continued in 1952.

MARKET ACTION: Recent price—65, compared with a 1951-1952 high—65, Low—45⅛. At current price, the yield is about 7.4%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1941	1951 (000 omitted)	Change
ASSETS			
Cash	$ 50,174	$ 66,160	+$ 15,986
Marketable Securities	....	88,834	+ 88,834
Receivables, Net	393,865	697,680	+ 303,815
Inventories, Mfg. Cos.	....	11,904	+ 11,904
TOTAL CURRENT ASSETS	444,039	864,578	+ 420,539
Net Property, Mfg. Cos.	....	8,032	+ 8,032
Investments	5,057	....	— 5,057
Other Assets	2,325	5,993	+ 3,668
TOTAL ASSETS	$451,421	$878,603	+$427,182
LIABILITIES			
Notes Payable	$276,837	$455,073	+$178,236
Accounts Payable	7,220	27,688	+ 20,468
Accruals	8,846	19,358	+ 10,512
Accrued Taxes	....	31,926	+ 31,926
TOTAL CURRENT LIABILITIES	292,903	534,045	+ 241,142
Unearned Prems., Ins. Cos.	....	31,371	+ 31,371
Other Liabilities	055	063	+ 008
Reserves	45,283	6,240	— 39,043
Long Term Debt	46,500	181,500	+ 135,000
Preferred Stock	12,194	....	— 12,194
Common Stock	18,415	22,790	+ 4,375
Surplus	36,071	102,594	+ 66,523
TOTAL LIABILITIES	$451,421	$878,603	+$427,182
WORKING CAPITAL	$151,136	$330,533	+$179,397
CURRENT RATIO	1.5	1.6	+ .1





STERLING DRUG, INC.

BUSINESS: This is the leading manufacturer of proprietary products, with growing representation in the important ethical drug field. Output consists of proprietary and ethical drugs 75%, household and toilet articles 14%, and industrial products 11%. Somewhat over one-third of sales are for export, or accounted for by manufacture of products in foreign countries through subsidiaries.

OUTLOOK: The company has made steady but not spectacular gains in sales since incorporation in 1932. Some of its products are known nationwide. These include Bayer Aspirin, Phillips' Milk of Magnesia, Chas. H. Fletcher Castoria, Dr. Lyon's Tooth Powder and many others equally well known. The company's extension into the ethical drug field has been accomplished through the acquisition of established concerns with well-defined earning power, rather than through the inauguration of new divisions for these purposes. Among the leaders in research and development, Sterling Drug has taken special pains with the extension of its laboratory work and has recently constructed a new center. Earnings are characteristically stable and have ranged around $3 a share since 1946. Basic earning power is indicated by the company's dividend record which stretches back without a break for a half century. A high degree of liquidity is evidenced with cash and marketable securities 85% of current liabilities, according to the 1950 report, later figures being unavailable. During the past few years, from $4 to over $6 million have been carried to reserves annually. With retained earnings mounting to approximately $25 million in the past six years, including estimated earnings of about $3 a share for 1951, net property account has risen about $10 million in this period. Part of the balance has gone into the purchase of the stock of various companies in the ethical drug field during the past few years. The company's management is considered among the most resourceful in the business. Present operating conditions are satisfactory and the outlook is favorable. The company benefits from a high exemption on excess profits tax.

DIVIDENDS: In line with its careful dividend policy, the company paid $2.25 a share last year, against $2.50 the previous year. The current rate seems secure in view of the earnings margin and strong financial position.

MARKET ACTION: Recent price—39½, compared with 1951-1952 High—47¾, Low—36⅛. The yield is about 5.6%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1941	1950 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 10,611	$ 16,389	+$ 5,778
Receivables, Net	5,629	14,741	+ 9,112
Inventories	12,031	33,984	+ 21,953
TOTAL CURRENT ASSETS	28,271	65,114	+ 36,843
Net Property	6,139	30,866	+ 24,727
Investments	7,562	485	— 7,077
Other Assets	19,294	14,764	— 4,530
TOTAL ASSETS	$ 61,266	$111,229	+$ 49,963
LIABILITIES			
Notes & Accounts Payable	$ 3,318	$ 9,710	+$ 6,392
Accruals	1,612	3,133	+ 1,521
Tax Reserves	7,121	6,853	— 268
TOTAL CURRENT LIABILITIES	12,051	19,696	+ 7,645
Other Laibilities	....	370	+ 370
Reserves	5,440	3,619	— 1,821
Long Term Debt	650	13,834	+ 13,184
Perferred Stock	155	11,670	+ 11,515
Common Stock	16,900	19,146	+ 2,246
Surplus	26,070	42,894	+ 16,824
TOTAL LIABILITIES	$ 61,266	$111,229	+$ 49,963
WORKING CAPITAL	$ 16,220	$ 45,418	+$ 29,198
CURRENT RATIO	2.3	3.3	+ 1.1

F. W. WOOLWORTH COMPANY

BUSINESS: This is the leading chain store, selling mainly lower-priced merchandise. For many years, it operated exclusively as a 5-and-10-cent store chain. In recent years, it has spread out on a competitive basis into most lines of cheap consumer goods without limitation as to price. The company operates 1943 stores, of which 1778 are located in the U. S. Stores are also operated in Canada and Cuba and, through subsidiaries, in England, France and Germany.

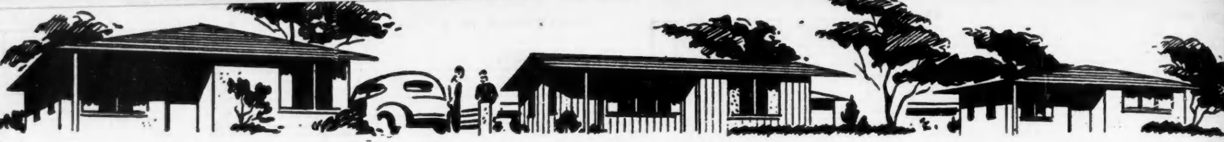
OUTLOOK: Due in part to unsatisfactory weather conditions last December, earnings for the holiday season were disappointing and helped to bring net per share down to $3.22 in 1951 compared with $3.83 a share in 1950. Taxes also played a part in the decline, the increase in taxes amounting to 71 cents a share. Sales reached a record of $684 million, a gain of about $52 million over the previous year. The company, like others in the field, is affected by price regulations under OPS. Any relief, not an impossibility in coming months, would be of great benefit. In any case, the operating efficiency of this company is so high that present difficulties do not appear to have materially affected the actual rate of earnings, bearing in mind that increased taxes alone have been responsible for the recent decline in earnings. Assurance of earning power is illustrated by the company's record for the past 40 years which shows a sizeable profit each year. Dividends have been paid in each year during this period which explains the good investment rating this stock enjoys. Financial position is strong, with cash equivalent to current liabiliteis. The inventory problem is handled efficiently. Inventories decreased $9 million. In 1951, with the company pursuing a policy of operating on current inventory requirements only. The expansion program was cut to $17.8 million from $25 million, due to difficulties in securing materials for new construction. Woolworth is a strong, well-managed concern and future earnings should continue satisfactory.

DIVIDENDS: The company has been paying dividends of $2.50 annually since 1946. While earnings coverage is not large at present, the expected improvement in profits and the strong financial position indicate continuance.

MARKET ACTION: Recent price—44, compared with a 1951-1952 range of High—46¼, Low—41⅝. At current price, the yield is 5.6%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1941	1951 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 19,591	$ 55,397	+$ 35,806
Receivables, Net	1,155	1,817	+ 662
Inventories	69,569	98,690	+ 29,121
TOTAL CURRENT ASSETS	90,315	155,904	+ 65,589
Net Property	125,611	199,718	+ 74,107
Investments	42,745	32,587	— 10,158
Other Assets	2,950	3,836	+ 886
TOTAL ASSETTS	$261,621	$392,045	+$130,424
LIABILITIES			
Accounts Payable & Accruals	$ 13,657	$ 28,483	+$ 14,826
Tax Reserve	16,097	26,907	+ 10,810
TOTAL CURRENT LIABILITIES	29,754	55,390	+ 25,636
Reserves	410	2,444	+ 2,034
Long Term Debt	24,039	17,516	— 6,523
Capital Stock	97,500	97,500	....
Surplus	109,918	219,195	+ 109,277
TOTAL LIABILITIES	$261,621	$392,045	+$130,424
WORKING CAPITAL	$ 60,561	$100,514	+$ 39,953
CURRENT RATIO	3.0	2.8	— .2



Another Look at the . . . .
Building Industry

By H. F. TRAVIS

Residential building, normally the most important of building activities generally, remains an unknown quantity in the early months of 1952 just as it was in the early months of 1951. The reasons for present uncertainty, as a year ago, is to be found in Washington where the responsible agencies have not agreed as yet on a common policy on construction allotments. This is not surprising, as these agencies have different objectives.

The Federal Housing and Home Financing Agency, sensitive to the nation's housing needs, wants as many houses built as possible, at least 925,000 of them. The Defense Production Administration, which is responsible for rationing building materials, says that it can provide for only 700,000 units. The Economic Stabilization Administration, concerned with curbing inflation, takes a severe view and wants only 500,000 houses to be built. Finally, the Office of Defense Mobilization, top planning ageny for the defense program, thinks that 925,000 houses are too many but that 500,000 are too few. It says the figure ought to be somewhere in between.

Actually, the Defense Mobilizer has admitted that there are enough materials on hand to permit residential building at the 1946-49 rate. This would mean that about 869,000 houses can be built. Most of the leading building suppliers are using this figure as a basis for their budgets in 1952.

With this as an objective of the building industry this year, it is possible to draw some comparisons with 1951 and 1950, and also to make some tentative estimates as to the volume of building in the balance of this year. It must be borne in mind, of course, that the government has the power to affect the outcome either by tightening or relaxing present restrictions. If there are approximately 850,000 residential building starts this year, this will compare with 1,025,000 in 1951 and slightly under 1,400,000 in 1950, the latter the largest in history. It is significant that while there were over 1 million houses started or built in 1951, at the beginning of that year it was believed that not more than 800,000-850,000 could be built under the then existing government restrictions. It is evident that the earlier pessimism was not warranted since sufficient materials were found available to permit the construction of 25% more residential units. The added amount of new construction was facilitated by the action of Congress last year in relaxing restrictions on credit.

An important consideration, likewise, is that while the government has absolute power to alter the course of building, pressure from the "grass roots" for needed building, especially in an election year, is a formidable deterrent to too severe an attitude by the responsible authorities. With the population growing at the rate of 2.5 million a year, the need for new housing is manifest. Nor is it unimportant that the American people like to move, which means that they like to move to newer and better houses, either in their own localities or in some other region. Based on these factors, concrete and intangible, it is likely that new home construction will approximate the higher figure of 800,000-850,000 in 1952, rather than the lower figures recommended by some of the government agencies.

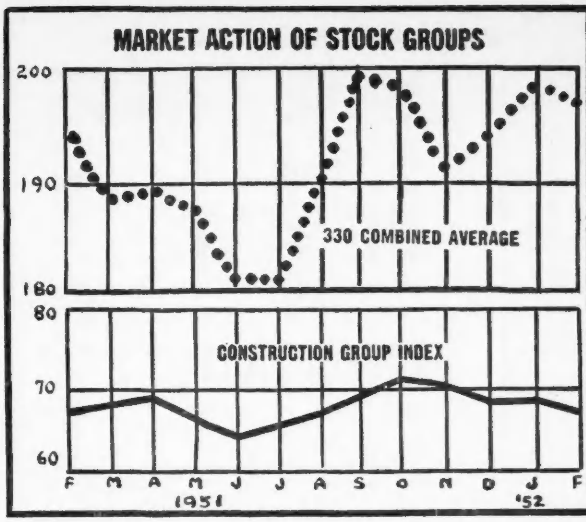
While even this higher estimate represents a fairly sizeable decline from 1951, there is a considerable offset in the rosier outlook for some of the other branches of the building industry. New factory construction is expected to continue very active, despite its boom last year, as a result mainly of large government expenditures for

defense and defense-supporting industries. Educational construction, which amounted to $1.5 billion last year, will be about the same. Cuts are not possible in view of the rapidly growing population of children. Non-residential rural building is also expected to hold up well as a result of the prosperity of the farm regions. Added to this is the growing market for replacements which is likely to play a large part in building industry activities this year.

The expected heavy demand for replacements deserves special consideration in evaluating the prospects for the building suppliers this year as it will tend to balance the estimated 20% decline in residential construction. A great deal of repair work has been held back in the past two years, owing to the great activity in new construction. Building suppliers were reluctant to accept this type of work in view of the scarcity of materials and the difficulty of shifting labor forces from new projects. Obviously, under present conditions, companies in the building industry will be more free to develop the repair and reconstruction branches of their business.

A great deal of confusion exists with regard to the outlook for the supply of building materials. The three leading scarcities are in copper, aluminum and steel. Despite growing evidence that at least two of these commodities—copper and steel—will be available in greater quantities in the not distant future, the Defense Production Administration still claims that it cannot ease its restrictions. Since the building industry uses only about 4% of the nation's copper output, it is difficult to see why the present harsh attitude continues to be in force.

Outside of the three scarce materials mentioned, surpluses are rapidly growing in many of the other essential building materials. Cement, brick and lumber are all in plentiful supply with indications of price weakness as inventories pile up at the same time that output is still on a high level. This represents an element of weakness in the building trades.



Many manufacturers can now deliver items in quantity in two weeks whereas, a year ago, customers had to wait as long as three or four months. Price weakness exists in manufactured products, such as bath tubs and heaters, as well as basic materials. The official index of wholesale building material prices in early January was 224, about 1.5% under January and about 4% under February of last year. Currently mounting inventories indicate that further price weaknesses will be witnessed.

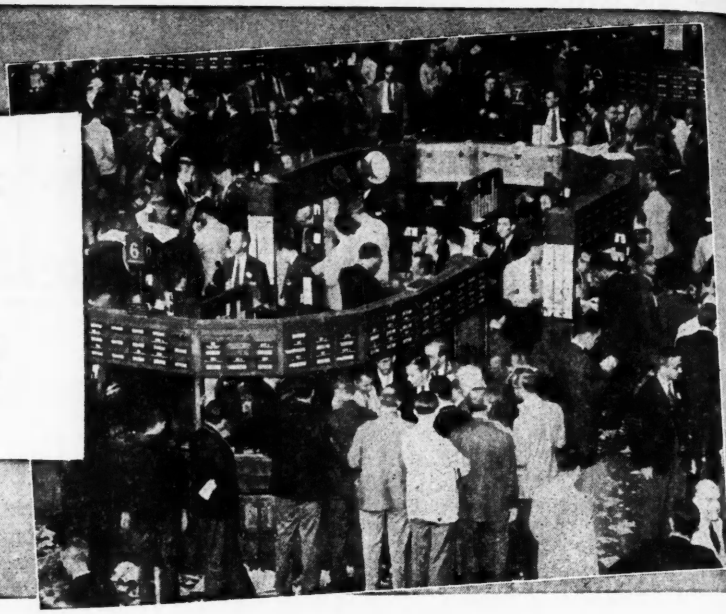
From the standpoint of corporate profits, companies in the building lines probably will not show up so well as in the first half of 1951, due largely to necessary write-downs for inventory losses and some general slackening in the rate of new orders. Profit margins, therefor, will probably be smaller. Actually, this process has been in force for some time. As indicated by (*Please turn to page* 718)

Position of Leading Building Stocks

	Net Sales 1951 (Millions)	Net Sales 1950 (Millions)	Net Margin 1951	Net Margin 1950	Net Per Share 1951	Net Per Share 1950	Recent Price	Div. 1951	Div. Yield
Alpha Portland Cement	......	$ 21.5	......	15.2%	......	$ 5.59	37¼	$ 3.00	8.1%
American Rad. & S. S.	$232.0[1]	284.8	6.6%[1]	9.9	$ 1.50[1]	2.80	15⅝	1.50	9.6
Bruce, E. L.	12.4[3]	32.1[2]	4.4[3]	5.8[2]	1.84[3]	6.39[2]	20	2.00[8]	10.0
Celotex	59.2[4]	48.7[4]	5.8[4]	6.2[4]	3.69[4]	3.13[4]	17⅞	1.50	8.4
Certain-teed Products	62.5	55.9	8.1	11.4	3.12	3.92	14⅞	1.00	6.7
Crane Co.	......	220.0	......	7.6	......	6.48	35¼	2.60	7.3
Devoe & Raynolds "A"	48.8[5]	47.2[5]	4.0[5]	5.8[5]	3.42[5]	4.83[5]	25¾	2.00[8]	7.7
Flintkote	84.2	83.8	6.5	9.2	4.11	5.83	29⅛	3.00	10.2
Holland Furnace	25.5[1]	36.3	3.4[1]	8.7	.98[1]	3.53	20⅝	2.00	9.7
Johns-Manville	238.0	203.2	10.3	11.2	7.75	7.22	65	4.25	6.5
Lehigh Portland Cement	39.3[1]	44.3	10.7[1]	14.7	2.22[1]	3.45	24	1.20	5.0
Lone Star Cement	71.3	64.3	11.9	15.6	2.93	3.52	24⅞	1.50	6.0
Masonite	11.4[6]	38.2[7]	8.1[6]	9.9[7]	.69[6]	2.81[7]	28⅝	1.50	5.2
National Gypsum	95.4	75.9	7.7	12.2	3.12	4.20	19¼	1.40[8]	7.2
Otis Elevator	60.9[1]	86.0	10.8[1]	12.2	3.29[1]	5.19	35½	2.50	7.0
Penna-Dixie Cement	25.5	22.7	10.8	14.1	4.58	5.34	25¾	2.00	7.7
Pittsburgh Plate Glass	404.2	337.1	7.6	12.4	3.44	4.64	46	2.00	4.3
Pratt & Lambert	......	14.6	......	7.9	......	5.94	40	3.00	7.5
Ruberoid	64.2	61.9	6.2	8.2	7.23	9.64	56	3.50[8]	6.2
U. S. Gypsum	188.1	174.7	10.5	15.6	12.05	16.70	106¼	7.00	6.5
Walworth	52.5	34.8	4.5	4.9	1.75	1.27	10⅛	.90	8.9
Yale & Towne	67.2[1]	65.1	3.3[1]	4.1	3.67[1]	5.30	36¾	2.50	6.8

1—9 months ended Sept. 30.
2—Year ended June 30, 1951.
3—6 months ended Dec. 31, 1951.
4—Year ended Oct. 31.
5—Year ended November 30.
6—Quarter ended Nov. 30, 1951.
7—Year ended August 31, 1951.
8—Plus stock.

FOR PROFIT AND INCOME



Spurts

Every now and then, with no news development to explain it, the calm of a relatively quiet stock market is broken by a sudden increase in buying or selling. Next morning you read in your newspaper that "the market"—meaning the Dow-Jones industrial average or perhaps some other average—had the largest rise or fall since such and such a time. Recent examples were a one-day rise of 3.87 points by the Dow average on March 4 and, on the preceding decline from the January high, sell-offs of 3.29 points on January 30 and 3.98 points on February 19. These moves are not engineered. They are due to sudden transient changes in the demand-supply balance in a free auction market. Since they do not change their own tactics so quickly, some investors mistakenly suspect manipulation. The fact is that the market is always sufficiently thin to be sharply, but temporarily, affected by mercurial shifts in the immediate sentiment and tactics of floor and boardroom traders, plus traders and some semi-investors who act quickly on telephoned or wired advices from brokers or other professional advisers. These sources of buying or selling cannot make a market trend.

Reality

When you see the Dow industrial average spurt 3.87 points upward in a single session, then note the great number of fractional changes in individual stocks—perhaps including most of those you hold—you may wonder what all the excitement is about. It should be borne in mind that the average is not a straight average of total prices of the 30 Dow industrials. To allow for stock splits, etc., a divisor is used. This is lowered from time to time as the outstanding shares of the 30 companies represented in the average increase. At present it is 6.53. At this writing the Dow average stands at approximately 264. That is the total price of the 30 stocks divided, not by 30, but by 6.53. With a divisor of 6.53 the actual average market price of the 30 issues is about 21.75% of the 264 level of the Dow average or 79.20. So the March 4 rise of 3.87 points in "the average" was actually an average rise of about 83 cents per stock or less than ⅞ of a point. The latter is the true picture, since you buy or sell stocks, not the Dow average. A comparison of point movement in individual stocks with the movement of the average is always meaningless. If both are figured on a percentage basis, they become comparable.

Groups

In the main, the retreat of the market from January 22 to February 20 was led by growth-stock groups which had previously had exceptionally large advances; plus a few groups, mostly in soft-goods fields, out of favor because of poor trade news. The subsequent rally was mostly led by the earlier favorites, notably oils and chemicals. With a few exceptions, including rails, the majority of the run-of-the-mill speculative and semi-speculative stocks, and of stable-income stocks, did relatively little on the recent decline or on

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1951	1950
Square "D" Co.	Year Dec. 31	$3.87	$3.61
Howe Sound Co.	Year Dec. 31	9.22	5.29
Pure Oil Co.	Year Dec. 31	7.88	7.06
Reynolds Metals Co.	Year Dec. 31	10.50	8.32
Diamond Alkali Co.	Year Dec. 31	2.95	2.22
Ex-Cell-O Corp.	Year Nov. 30	6.97	5.55
Standard Oil of Indiana	Year Dec. 31	9.71	8.09
Cincinnati Milling Machine	Year Dec. 31	4.74	2.70
Parke, Davis & Co.	Year Dec. 31	3.89	3.65
Fairbanks, Morse & Co.	Year Dec. 31	4.09	3.20

the subsequent rally, which is pretty much their story for the last year or so. It is difficult to envision a revival of broad speculative demand, a continuation of dynamic market leadership by the handful of groups which figured so prominently in phases of advance over the last 12 months, or the development of equally dynamic alternative leadership among groups on which investment sentiment has long been lukewarm or indifferent. Among the "fair-haired" groups of 1951, only oils retain anything like their previous degree of favor. There has been a wide deflation of bullishness on rayon stocks, considerable on paper stocks, tires, coppers, ethical drugs and chemicals.

Mixed

The bull market of 1942-1946 took the Dow industrial average to a top of 212.50. At the high of the autumn of 1951 the advance begun in mid-1949 had taken it to 276.37, bettering the 1946 high by about 64 points. However, selective leadership is never the same in two bull markets. At their 1951-1952 highs the following groups were under their 1946 highs, some by wide margins: air lines, auto parts, liquors, soft drinks, confectionery, glass containers, foods, gold stocks, metal fabricating, printing and publishing, railroad equipments, department stores, variety chains, shoes, sugar, bank stocks, motion pictures and tobacco stocks. Groups which at some point on the post-1949 advance went most widely above their 1946 highs include automobiles, chemicals, bituminous coal, coppers, fertilizers, office equipment, oil, paper, shipping, rayon and tires. Groups whose 1951-1952 highs topped the historic 1929 highs by important margins are oils, chemicals, ethical drugs, liquors, soft drinks, air lines, glass containers, fertilizers, finance companies, paper, mail-order stocks, shipbuilding, shipping, rayon and tires.

Trends

Only the minor shipbuilding group and the mail-order group recorded successive new highs at the 1929, 1937, 1946 and 1951-52 highs. The tops in each bull market since 1929 to date have been at successively lower levels for metal fabricating, rail equipments and tobacco stocks. Groups whose 1951-1952 highs bettered both 1946 and 1937 bull-market highs are aircraft, autos, chemicals, fertilizers, office equipment, oil, paper, radio broadcasting, food chains, mail-order stocks, shipbuilding, shipping, soaps, rayon and tires.

Stocks

Stocks which have performed exceptionally well recently—sufficiently so to top their earlier 1952 highs—are Detroit Edison, Commercial Credit, Indianapolis Power & Light, McGraw-Hill, Louisville Gas & Electric, Motorola, National Supply, Philco, Radio Corp., Seaboard Finance, United Gas, Zenith Radio, CIT Financial and Family Finance. As will be seen, utilities, finance companies and radio-television stocks are heavily represented.

Oils

From the January high to the February low oil stocks as a group reacted roughly 8%, or about one-third more in percentage than the industrial average. Up to this writing, however, they have recovered nearly 60% of their decline, against less than 40% for the industrial average. In the post-war period oils have been more widely bought than any other group of stocks. Their January group high was not far from double their historic 1929 high; and merely from their 1951 low to the January high the rise was close to 50% or more than three times that of the industrial list. Continuation of so dynamic a performance is unlikely. But holders of good oil stocks are generally reluctant to sell for two reasons: (1) the question whether they can be bought back sufficiently lower to make selling worth while after allowing for the 26% capital gains tax; and (2) the question of what might be done with the proceeds of sales, since it is hard to find other common stocks basically more attractive than oils at present relative prices. A reasonable compromise would be to take enough profit to recover one's initial investment and to put the proceeds into high-grade bonds or preferred stocks for an indeterminate temporary period, possibly of considerable duration. As things look now, 1952 will be another good year for the industry, with total profits well maintained and probable moderate gains for some companies. However, it seems a reasonable assumption that the long period of prosperity will lead sooner or later to over-production, price softening and reduced earnings. The secular outlook is favorable, but one need not look further back than 1949 to find a year in which oil profits fell more than those of industry generally.

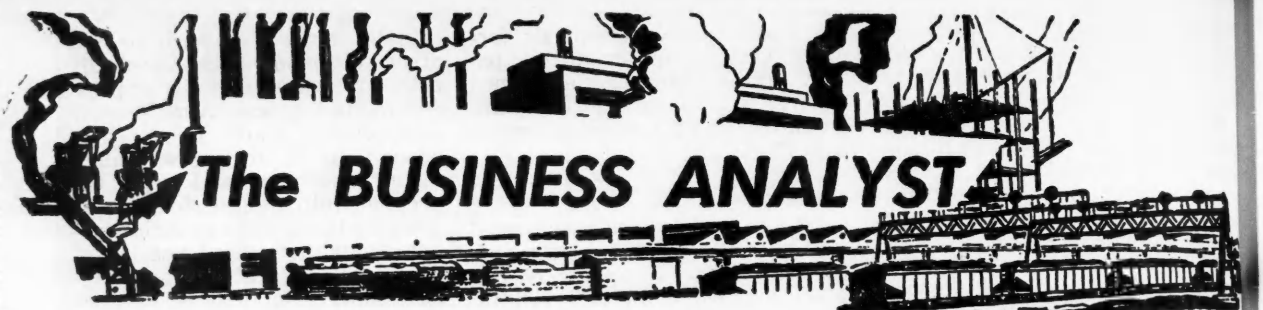
Beneficial Loan

We have cited Beneficial Loan before as a good-yield stock with potentials for at least moderate appreciation, hence an attractive issue for conservative portfolios. Despite higher taxes, the company has now reported record earnings of $3.80 a share for 1951, which exceeded this column's expectation, compared with 1950's $3.08. No basis for much, if any, shrinkage in 1952 is apparent. Dividends are on a $2 annual cash dividend, providing a safe current yield of more than 6.1%. Stock dividends in recent years were 5% paid on January 31 and 12½% paid at the end of 1949. The cash rate is materially lower, relative to earnings, than the company's past average dividends, which have been paid each year since its formation by merger in 1929. The earnings outlook and the manage-

(Please turn to page 717)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1951	1950
American Cyanamid	Year Dec. 31	$8.63	$10.14
Holland Furnace Co.	Dec. 31 Quar.	1.04	1.72
Penick & Ford	Year Dec. 31	2.83	3.89
Robertshaw-Fulton Controls	Year Dec. 31	3.87	3.61
Westinghouse Electric Corp.	Year Dec. 31	4.03	5.36
Eastman Kodak Co.	52 Weeks Dec. 30	3.23	4.50
Thompson Products	Year Dec. 31	6.20	7.51
Admiral Corp.	Year Dec. 31	4.97	9.73
Coca-Cola Co.	Dec. 31 Quar.	1.20	1.52
Simmons Co.	Year Dec. 31	4.10	7.26

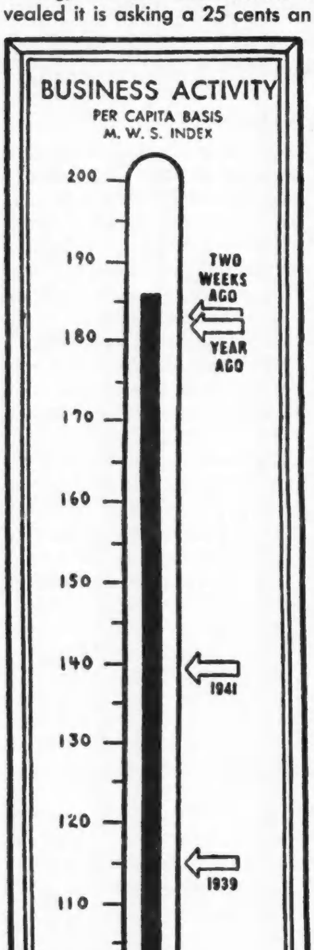


The BUSINESS ANALYST

What's Ahead for Business?

By E. K. A.

With the steel wage controversy still unresolved at this writing, the CIO International Electrical Workers Union revealed it is asking a 25 cents an hour wage boost and other benefits from General Electric Co. The E.W.U. and its rival, the United Electrical workers, have opened negotiations with the big electrical firm but the U.E.W. has not yet specified its demands. We can be sure they won't be less.



Besides the 25-cent wage increase, the CIO union is demanding a cost-of-living increase to cover the period from last September 15 to March 15, and an overhaul of the incentive wage system with a minimum of 3½ cents added to the base rate. It also asked a four-cent-an-hour fund to wipe out differences in pay rates between men and women, and creation of a 4½-cents-an-hour fund for clerical and day workers. Withal a neat package!

We cite this to point out some current inconsistencies in the forward thinking of some of our policy-shaping bodies. President Truman's Council of Economic Advisers recently told Congress that businessmen can avoid a recession after military spending passes its peak if they will adopt "competitive pricing" policies. If that is done, the Council opined, the national economy will furnish enough demand to enable business to avert a recession. The Council fails patently, however, to say how it should be done.

With past rounds of wage increases, and the new one to come, frozen into the price structure and the economy as a whole, lower prices—and that's what is meant by "competitive pricing policies"—will be difficult if not impossible to institute, that is if business is to operate at a fair profit which it has to in order to survive. Glib talk about competitive pricing, alias lower prices, thus makes little sense, particularly as long as the Government in its wage policies leans over backwards to appease labor at every turn. The fact is that the steady rise of fringe benefit costs to employers is continuing without any important check from the Wage Stabilization Board. Fringes, referred to occasionally as the "not so hidden pay roll," now represent very important costs to the average employer, and they are not likely to be given up by labor under any prospective conditions. At that, also, the fate of escalator clauses, should living costs go down, is becoming a matter of great and rather cynical curiosity. The impression is that they will work only one way—upward, and that's probably a safe bet.

In the circumstances, we feel that the Council has been promising entirely too much. There is little question that the economy is now artificially and strongly stimulated by defense spending. It would be nothing short of a miracle if this stimulus could be withdrawn without considerable disturbance. Certainly "competitive pricing" cannot be the answer unless there is a radical change in official wage policies and in tax policies. While taxes conceivably might be lowered, in fact will have to be lowered, wage costs are not likely to come down unless forced down by disappearing markets in which case the worker certainly would be the loser.

We are convinced that the American economy today possesses the basic strength and stability to weather any such recession without really serious consequences, but the readjustment would be far easier if wage-boosting excesses were avoided. It's something to bear in mind as the "seventh round" gets under way. For another full turn of the wage-price spiral is likely to tear to shreds the kind of optimism exuded by the Council.

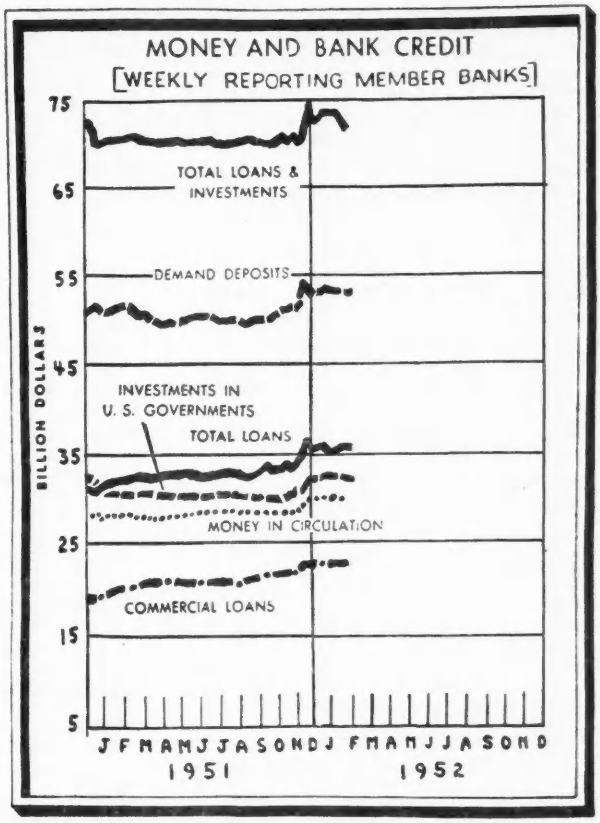
Every time wages are boosted, employers automatically incur new substantial costs in connection with existing fringe benefits. Hence we ought to expect the Wage Stabilization Board to take such real, but hidden costs into consideration when making wage awards, or still better, to resist new demands which are not absolutely justified.

But the history of stabilization shows that Government agencies prefer to conceal the inflation until the time when controls are removed. Prices then will go up instead of down, and the blame will be promptly placed on the "greedy manufacturers." This attitude is reflected in advance in the Council's call for "competitive pricing." The "innocent little fringes" are blithely overlooked as real contributors to inflation which may make price reduction well night impossible.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—The Treasury's exchange offers for the $1 billion of 2½s called for payment March 15 and the $9.5 billion of certificates maturing April 1, received a lukewarm reception. Holders of 90% of the called bonds accepted the proffer of seven-year obligations paying 2⅜% and holders of 93% of the certificates turned them in for new 1⅞% certificates due 2/15/53. These percentages of acceptances were below average as Treasury exchange offers in the past few years have been taken at a 95% acceptance rate. The Treasury will have to pay out $700 million to those holders who are asking for cash payment. The flood of tax payments this month may not long delay the drain on Treasury cash resulting from mounting governmental expenditures, so that the Treasury must face the problem of awakening investor interest in issues designed to raise new money. Another urgent problem concerns the $3.8 billion Series "E" bonds maturing this year. As yields from competing forms of investment continue to rise, Defense Bonds lose their appeal to investors. Government bonds weakened during the past two weeks with the long-term bank-ineligible 2½s losing ⅜ point to close at 96½ on March 10. The Federal Reserve Banks decreased their investments in governments by selling $41 million worth of certificates in the week ended March 5. However, two weeks earlier they had made heavy purchases of long term obligations, increasing holdings at that time by $165 million. The nation's money supply—bank deposits plus currency outside the banks—fell by $600 million in the month ending January 31, with demand deposits declining $400 million and currency down by $700 million, while time deposits rose $500 million. The $1.4 billion decline in bank credit during the month did not bring a commensurate decline in the money supply, because of a $300 million rise in the gold stock and a $700 million reduction in government deposits which went into private hands. The January reduction in the money supply appeared to be less than seasonal and compares with the precipitate drop of $1.7 billion recorded in the corresponding month of last year when demand deposits fell by $700 million, currency by $800 million and time deposits by $200 million.



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TRADE—Retail trade was slow during the first week of March as inclement weather discouraged would-be shoppers. Demand for apparel, furniture, television sets, floor coverings and appliances continued below a year ago but food sales bettered last year's results. Department store sales in the week ending March 1 were 15% below results for the corresponding week of 1951 but merchants appeared optimistic about the outlook for retail trade, pointing out that last year's figures were boosted by the earlier Easter and by the last flurry of scare buying which occurred at that time. With these two factors out of the way they feel that comparison with last year will soon make better reading.

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INDUSTRY—The Federal Reserve Board finds that industrial production continued on an even keel in January and that February output showed little change. Durable goods production in January was slightly below that for December, while output of non-durables showed a small increase. Activity of makers of armament and of producer's equipment showed only slight variations in January, thus interrupting the steadily rising trend of prior months. The MWS Index of Business Activity firmed in the past two weeks to reach 186.6 for the week ending March 1, against a level of 183.8 a fortnight earlier. Greater output during the period was noted for steel, and crude oil runs. Production of coal and electric power were somewhat lower.

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COMMODITIES—Primary market prices as measured by the new Bureau of Labor Statistics wholesale price index, declined 0.3% in the week ending March 4 to stand at 111.4% of the 1947-49 average. (See page 672.) At this level the index was 4.6% below its all-time high reached in February of last year, but still 11.8% above the level of May 1950, the month prior to the outbreak of the Korean war. The MWS Index of spot prices of 14 raw materials rose to 176.3 on March 7 from 175.5 the week before. The rise reflected strength in grains and sugar. Cotton was slightly lower.

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Large gains in the nation's proved domestic resrves of **LIQUID PETROLEUM** and **NATURAL GAS** were chalked up in 1951 despite record-breaking consumption of these products

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Feb.	3.4	3.7	1.7	1.55
Cumulative from mid-1940	Feb.	444.6	441.2	407.3	13.8
FEDERAL GROSS DEBT—$b	Mar. 7	260.2	260.4	255.7	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Feb. 27	52.7	52.6	50.6	26.1
Currency in Circulation	Mar. 5	28.5	28.4	27.2	10.7
BANK DEBITS					
New York City—$b	Feb. 27	10.2	13.6	9.2	4.26
93 Other Centers—$b	Feb. 27	14.2	17.4	15.6	7.60
PERSONAL INCOMES—$b (cd2)	Jan.	257.3	258.6	243.6	102
Salaries and Wages	Jan.	172	172	158	66
Proprietors' Incomes	Jan.	50	50	51	23
Interest and Dividends	Jan.	19	21	19	10
Transfer Payments	Jan.	13	12	13	3
(INCOME FROM AGRICULTURE)	Jan.	22	23	22	10
POPULATION—m (e) (cb)	Jan.	155.8	155.6	153.0	133.8
Non-Institutional, Age 14 & Over	Jan.	109.3	109.2	109.2	101.8
Civilian Labor Force	Jan.	61.8	62.7	61.5	55.6
unemployed	Jan.	2.1	1.7	2.5	3.8
Employed	Jan.	59.7	61.0	59.0	51.8
In Agriculture	Jan.	6.2	6.4	6.0	8.0
Non-Farm	Jan.	53.5	54.6	53.0	43.8
At Work	Jan.	57.5	59.3	57.0	43.2
Weekly Hours	Jan.	41.6	41.9	41.6	42.0
Man-Hours Weekly—b	Jan.	2.39	2.48	2.37	1.82
EMPLOYEES, Non-Farm—m (lb)	Dec.	47.5	46.8	46.6	37.5
Government	Des.	6.9	6.5	6.4	4.8
Factory	Dec.	12.9	12.9	13.1	11.7
Weekly Hours	Dec.	41.2	40.5	41.4	40.4
Hourly Wage (cents)	Dec.	163.5	162.5	154.3	77.3
Weekly Wage ($)	Dec.	67.36	65.81	63.88	21.33
PRICES—Wholesale (lb2)	Mar. 4	111.4	111.7	116.5	92.5
Retail (cdlb)	Dec.	210.8	210.3	202.4	116.2
COST OF LIVING (lb3)	Jan.	189.1	189.1	181.5	100.2
Food	Jan.	232.4	232.2	221.9	113.1
Clothing	Jan.	204.6	206.8	198.5	113.8
Rent	Jan.	139.7	139.2	133.2	107.8
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Dec.	12.3	12.5	12.6	4.7
Durable Goods	Dec.	3.9	4.0	4.6	1.1
Non-Durable Goods	Dec.	8.4	8.5	8.0	3.6
Dep't Store Sales (mrb)	Dec.	0.83	0.85	0.83	0.34
Retail Sales Credit, End Mo. (rb2)	Dec.	12.1	11.6	12.1	5.5
MANUFACTURERS'					
New Orders—$b (cd) Total	Dec.	21.7	22.7	22.9	14.6
Durable Goods	Dec.	10.2	11.1	11.7	7.1
Non-Durable Goods	Dec.	11.5	11.6	11.2	7.5
Shipments—$b (cd)—Total	Dec.	21.4	22.3	21.0	8.3
Durable Goods	Dec	10.1	10.6	10.0	4.1
Non-Durable Goods	Dec.	11.3	11.7	11.0	4.2
BUSINESS INVENTORIES, End Mo.**					
Total—$b (cd)	Dec.	70.3	70.0	60.4	28.6
Manufacturers'	Dec.	42.0	41.7	33.3	16.4
Wholesalers'	Dec.	10.0	10.0	9.4	4.1
Retailers'	Dec.	18.3	18.3	17.8	8.1
Dept. Store Stocks (mrb)	Dec.	2.4	2.3	2.4	1.1
BUSINESS ACTIVITY—1—pc	Mar. 1	186.6	185.9	182.6	141.8
(M. W. S.)—1—np	Mar. 1	222.1	221.3	216.6	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 703)

during the year, the American Petroleum Institute and the American Gas Association announced. Proved reserves of liquid petroleum increased by 2.7 billion barrels, the greatest one-year addition in history, to reach a peak of 32.2 billion barrels at the end of the year. This compares with reserves of 24.0 billion barrels five years ago. Reserves of natural gas rose to 193.8 trillion cubic feet, a net increase of 8.2 trillion cubic feet over a year ago and far above proved reserves of 160.6 trillion cubic feet of natural gas at the end of 1946. Consumption of these products during 1951 amounted to 2.5 billion barrels of liquid petroleum and 8.0 trillion cubic feet of natural gas. In round figures this means that for every barrel of oil or cubic foot of gas withdrawn from the ground last year, there were found two new barrels of oil or two new cubic feet of natural gas.

* * *

Shipments of **FABRICATED STRUCTURAL STEEL** rose to 241,275 tons in January from 202,679 tons a month earlier, according to the American Institute of Steel Construction. However, the January figure includes additional steel items not previously tabulated, which add 24,912 tons to that month's total. The total **ORDER BACKLOG** on January 31, 1952 amounted to 2,416,042 tons, of which 235,535 tons represented the additional coverage mentioned above. The backlog a month earlier for the lesser number of items came to 2,670,202 tons. Fabricators have been worried by the fact that more than half of the orders on their books do not carry CMP authorization, without which neither fabrication nor construction is allowed. This aspect of the picture is beginning to look brighter. The National Production Authority has recently loosened up on allocations of structural steel for general commercial construction, announcing that authorizations for this purpose in the second quarter would be almost double those of the first quarter. At the same time, however, the demand has eased for structural steel for new or expanding defense plants with the result that allocations for the second quarter in this field have been reduced by 85,000 tons from first quarter levels.

* * *

The sudden easing of scarcities in the **STRATEGIC MATERIALS** field has brought a flood of government orders removing all restrictions on the use of lead, relaxing building and rubber controls, and increasing steel and aluminum allocations. Some observers who suspected that large hoards of scarce materials in excess of their owners'

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	Jan.	219	218	219	174
Mining	Jan.	164	163	164	133
Durable Goods Mfr.	Jan.	280	281	268	220
Non-Durable Goods Mfr.	Jan.	187	185	201	151
CARLOADINGS—t—Total	Mar. 1	756	683	786	833
Misc. Freight	Mar. 1	390	350	402	379
Mdse. L. C. L.	Mar. 1	77	66	86	156
Grain	Mar. 1	53	43	52	43
ELEC. POWER Output (Kw.H.) m	Mar. 1	7,416	7,461	6,822	3,267
SOFT COAL, Prod. (st) m	Mar. 1	10.0	10.1	11.4	10.8
Cumulative from Jan. 1	Mar. 1	94	84	96	44.6
Stocks, End Mo.	Jan.	74.4	76.6	74.0	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Mar. 1	6.4	6.4	6.0	4.1
Gasoline Stocks	Mar. 1	143	142	139	86
Fuel Oil Stocks	Mar. 1	36	37	38	94
Heating Oil Stocks	Mar. 1	53	55	48	55
LUMBER, Prod.—(bd. ft.) m	Mar. 1	536	575	530	632
Stocks, End Mo. (bd. ft.) b	Jan.	8.3	8.4	6.6	12.6
STEEL INGOT PROD. (st) m	Jan.	9.1	8.9	8.8	7.0
Cumulative from Jan. 1	Jan.	9.1	105.1	8.8	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Mar. 6	397	166	259	94
Cumulative from Jan. 1	Mar. 6	2,282	1,985	3,149	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Mar. 1	201	173	345	165
Cigarettes, Domestic Sales—b	Jan.	33	24	34	17
Do., Cigars—m	Jan.	495	368	459	543
Do., Manufactured Tobacco (lbs)m	Jan.	19	14	20	28

PRESENT POSITION AND OUTLOOK

needs were being held merely bcause of their scarcity, now feel that their suspicions have been confirmed. These persons believe that even copper will soon be in good supply as the defense stretch-out increases the burden of swollen inventories. On the other hand, government planners maintain that any resulting surpluses can be absorbed by increased allocations to civilian industries. This may not be as simple as it sounds. For example, auto makers have refused a 10% boost in this quarter's steel allotment. Perhaps they are finding car buyers scarcer than they had expected.

* * *

Corporations offered $7.8 billion of **NEW SECURITIES** for sale in 1951. This compares with offerings of $6.4 billion the year before and of $7.1 billion in 1948, the previous high in recent years. Of the total offered in 1951, $6.5 billion was for new money, including $5.1 billion for plant expansion and $1.4 billion for additional working capital. This represented about one-fourth of the total amount established to have been spent by corporations for these purposes, the remainder coming from retained earnings and depreciation accruals. Proceeds from the sale of common stock, last year, amounted to $1.2 billion and this compares with $811 million sold the year before.

b—Bilions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. l—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment sale credit and charge accounts. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

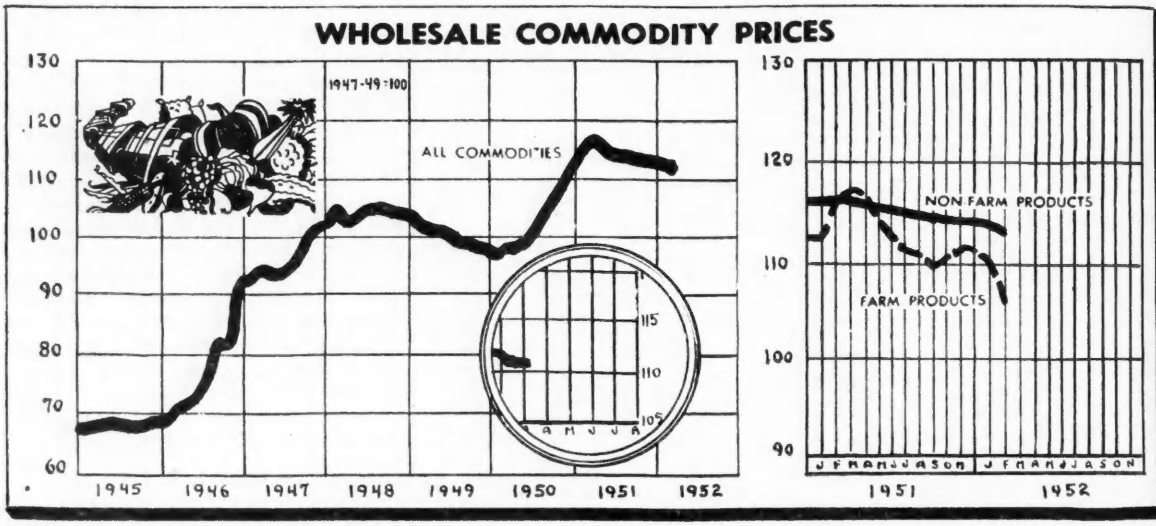
No. of Issues (1925 Cl.—100)	1951-'52 Indexes High	1951-'52 Indexes Low	1952 Mar. 1	1952 Mar. 8
330 COMBINED AVERAGE	204.6	172.6	193.2	197.5
4 Agricultural Implements	318.0	246.5	273.6	282.7
10 Aircraft ('27 Cl.—100)	339.1	252.8	299.0	299.0
7 Air Lines ('34 Cl.—100)	803.9	634.0	680.2	696.0
8 Amusements	112.5	86.6	95.4	96.4
10 Automobile Accessories	257.6	216.2	234.4	239.2
11 Automobiles	46.3	36.1	40.2	40.6
3 Baking ('26 Cl.—100)	23.2	21.0	21.4	21.4
3 Business Machines	410.1	300.8	378.4	378.4
2 Bus Lines ('26 Cl.—100)	183.1	150.6	152.1	153.6
6 Chemicals	427.8	326.0	380.7	388.0
3 Coal Mining	18.3	13.2	15.6	15.8
4 Communications	72.5	58.3	63.6	65.0
9 Construction	73.0	60.2	67.5	68.9
7 Containers	490.6	376.5	457.1	471.3
9 Copper & Brass	171.9	126.3	154.9	156.6
2 Dairy Products	85.7	75.9	83.2	84.0
5 Department Stores	84.5	62.7	63.3	64.6
6 Drugs & Toilet Articles	235.0	209.4	221.8	230.8
2 Finance Companies	331.2	243.0	331.2	331.2
7 Food Brands	200.9	171.4	175.0	175.0
2 Food Stores	118.4	97.4	97.4	103.5
3 Furnishings	75.0	59.3	59.3	59.3
4 Gold Mining	779.8	579.3	717.5	698.6

(Nov. 14, 1936, Cl.—100)	High	Low	1952 Mar. 1	1952 Mar. 8
100 HIGH PRICED STOCKS	124.7	107.1	119.2	122.0
100 LOW PRICED STOCKS	252.9	208.6	234.3	239.1
5 Investment Trusts	103.8	84.8	98.9	102.9
3 Liquor ('27 Cl.—100)	1250.1	1022.8	1045.3	1067.8
11 Machinery	219.8	177.7	204.1	206.2
3 Mail Order	152.0	117.7	117.7	122.8
3 Meat Packing	109.1	85.7	95.2	98.1
13 Metals, Miscellaneous	314.8	233.0	284.2	284.2
4 Paper	443.7	344.3	419.5	427.6
28 Petroleum	476.4	355.0	446.1	467.7
30 Public Utilities	167.5	142.5	165.9	167.5A
9 Radio & TV ('27 Cl.—100)	33.9	26.6	32.0	33.9A
8 Railroad Equipment	73.8	57.5	59.9	62.4
24 Railroads	45.4	34.2	41.3	43.7
3 Realty	41.6	34.3	39.3	41.6A
3 Shipbuilding	189.9	139.1	186.2	186.2
3 Soft Drinks	395.5	301.2	304.3	304.3
14 Steel & Iron	169.5	134.1	142.8	144.3
3 Sugar	77.6	66.5	68.9	73.1
2 Sulphur	655.3	425.3	552.3	568.7
5 Textiles	223.6	170.0	173.9	170.0Z
3 Tires & Rubber	75.3	51.2	68.3	71.8
6 Tobacco	86.7	75.3	82.6	82.6
2 Variety Stores	325.6	297.9	297.9	297.9
18 Unclassified ('49 Cl.—100)	127.3	109.4	118.6	119.7

A—New High for 1951-'52. Z—New Low for 1951-'52.

Trend of Commodities

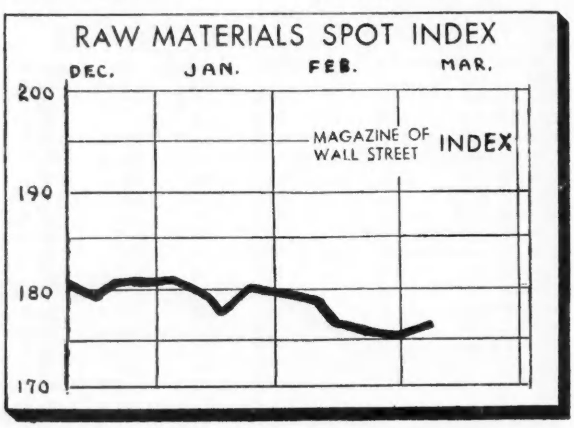
A preponderance of commodity futures improved during the past two weeks with grains, soybeans, cocoa, coffee, sugar and wooltops moving higher while butter, lard and cotton finished behind minus signs. The Dow-Jones Index of commodity futures closed at 180.52 on March 10 against 181.69 on February 25, but the decline in this index was due to sharply lower prices in the hide futures market, where trading has just resumed after a five-month suspension. March wheat gained 1½ cents during the past fortnight to close at 255¼ on March 10. News of the receipt of much needed moisture in the grain belt failed to depress prices, thus emphasizing the firm demand for the grain. The government has announced that it is willing to sell 25 million bushels of wheat this month at a price equivalent to $2.77 per bushel at Chicago. However, wheat would probably come out of the loan at somewhat lower levels. Corn futures have advanced 2¼ to 2¾ cents since February 25 and the strong statistical position is gaining wider recognition. If corn utilization from January-September of this year is equal to that of a year ago the carry-over next October 1 will approximate 490 million bushels, most of it owned by the government. On December 31, 1951, the CCC owned 389 million bushels and an additional 43 million bushels were under price supports. A tight supply situation may therefore develop unless prices advance to government selling levels. The CCC is offering 50 million bushels for sale this month at $1.93 per bushel. May cotton futures have lost 107 points since February 25 to close at 39.28 cents on March 10. The domestic textile market continues to suffer from lack of demand and the export outlook has deteriorated because of the intensified dollar shortage.

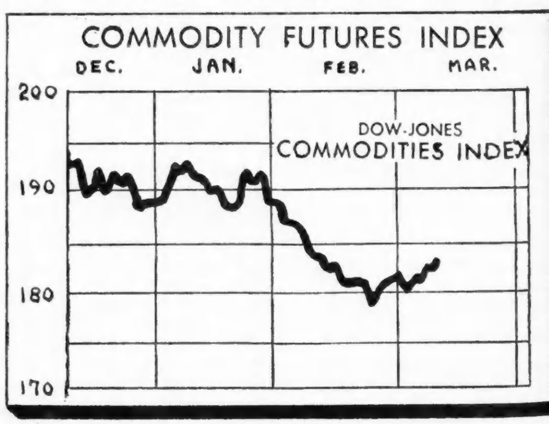


U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	Date Mar. 10	2 Wks. Ago	3 Mos. Ago	1 Year Ago	Dec. 6 1941
28 Basic Commodities	307.4	310.4	330.2	381.3	156.9
11 Imported Commodities	311.2	311.7	337.6	419.2	157.3
17 Domestic Commodities	305.0	309.7	325.6	358.6	156.6

	Date Mar. 10	2 Wks. Ago	3 Mos. Ago	1 Year Ago	Dec. 6 1941
7 Domestic Avriculture	337.5	341.3	362.7	413.2	163.[illegible]
12 Foodstuffs	354.2	358.6	369.3	400.1	169.[illegible]
16 Raw Materials	294.8	296.6	319.3	369.9	148.[illegible]





14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1951	1950	1947	1945	1941	1939	1938	1937
High	214.5	304.7	164.0	95.8	74.3	78.3	65.8	93.8
Low	174.8	134.2	126.4	83.6	58.7	61.6	57.5	64.7

Average 1924-26 equals 100

	1951	1950	1947	1945	1941	1939	1938	1937
High	215.4	202.8	184.4	111.7	88.9	67.9	57.7	86.[illegible]
Low	176.4	140.8	123.0	98.6	58.2	48.9	47.3	54.[illegible]

Keeping Abreast of Industrial and Company News

International Minerals & Chemical Corp. has opened its new chemical fertilizer and superphosphate plant in Fort Worth, Texas. The new plant is now in full operation. It will have an average annual production of 60,000 tons of superphosphate and mixed plant foods, representing a large investment in land, plant and equipment. It will produce 15 to 20 types of mixed plant foods. The corporation is one of the largest firms in the plant food industry. It is the largest producer of phosphate rock in the Western hemisphere, third in domestic production of potash, and a major firm in the chemical industry. It is also the world's largest producer of monosodium glutamate, a new basic seasoning used along with salt and pepper for flavoring many foods.

Westinghouse Electric Corp. has received orders totaling approximately $11 million to build equipment necessary for generating, carrying and using electric power at the huge Savannah River project of the Atomic Energy Commission. The multi-million dollar contract was received from the E. I. duPont de Nemours Co., which is building the new South Carolina plant, which will produce materials that can be used in either A-Bombs or H-Bombs.

American Cyanamid Co. has developed a new synthetic fibre that is commencing to be evaluated in textile products such as woven clothing fabrics, blankets, hosiery and other knit goods. The fibre is being produced in two types, a wool-like staple and a silk-like yarn. Each has a particularly good color and can be easily dyed with conventional methods. It is the result of seven years of development work and produced through a new, patented method. The company states that data obtained from evaluation trials will be the basis for deciding whether or not a large-scale plant should be built. At present, production is on a pilot-plant basis.

The Atlantic Refining Co. has awarded a contract to The M. W. Kellogg Co., N. Y. City refinery and chemical plant engineer-contractors, for the design and construction of two major processing units at Atlantic's Philadelphia refinery. This multi-million dollar expansion program includes the world's largest Orthoflow Fluid catalytic cracker and alkylation plant for the production of alkylate, an important component of high octane aviation gasoline. Construction of both units will begin this Spring. The Orthoflow unit will be the largest of its kind.

Engineers of Federal Telecommunication Laboratories, Inc., research associate of **International Telephone and Telegraph Corp.** have described a revolutionary method of microwave wiring that will not only result in huge savings in production costs but will greatly reduce the need for critical materials and highly skilled manpower. Chief advantage of the new system is that it is many times cheaper than the current method of producing microwave circuits. The "jewel-like" machining required in the production of existing components—a major factor in the present high cost of microwave systems—is virtually eliminated. The over-all advantages offered in the new method of printing microwave circuits are expected to advance the possibilities of inexpensive television microwave radio relays, thus permitting millions of Americans heretofore unable to view TV programs because of costly cable and microwave installations to enjoy full programming beamed directly from New York, Hollywood and Chicago entertainment centers.

Carrier Corp. has announced a new unique concentrator and blast freezing installation to produce pineapple juice and other products for the Hawaiian Pineapple Co. Officials of the company have stated that the new three-effect concentrator is the first high vacuum, low temperature unit of its kind to be designed for Hawaiian pineapple juice. Cans of concentrate and packaged pineapple products will be frozen in a high-efficiency air blast tunnel of new design.

W. A. Sheaffer Pen Co. has been awarded a contract for production of over 14 million delay elements for artillery fuses by the Chicago Ordnance District. Work on the contract, which amounts to $434,000 will start in April.

Lockheed Aircraft Corp. has completed making deliveries of 14 Super Constellations for **Eastern Air Lines.** This completes phase I of Lockheed's transport fleet replacement program for Eastern. Phase II of the EAL project will increase its transport fleet by 16 compound-engine Super Constellations.

Cleveland Graphite Bronze Corp. has announced that negotiations have been completed for the purchase of the Brush Development Co. of Cleveland. The latter is a successful manufacturer in the fields of electronics and technical instruments. It is expected that long-term advantages will accrue to Cleveland Graphite from the new acquisition. For Cleveland Graphite, whose business has always been connected with the highly compeitive automotive industry, it affords an entry into the rapidly growing electronics field in which Brush Co. has an established and profitable position.

Aluminum Company of America has begun operating its first expansion unit in the aluminum industry of Texas. The first of the two new smelting lines was put into operation at the plant, which is located at Port Lavaca, Tex. The new line increases production

capacity by about 135 million pounds of aluminum annually and constitutes a major step in alleviating the national shortage of aluminum. The second line is scheduled for completion within three months. By terms of a contract by ALCOA and the General Services Administration, the U. S. government will get first call for five years on the output of the two new units.

Hunt Foods, Inc. has named new distributors for its products in Puerto Rico and Cuba. The increasing populations in those places, coupled with their higher purchasing power, the latter partly reflecting an expansion of their industries, have caused these countries to step up their purchases of canned fruits and vegetables in recent years. Hunt Food is the largest packer in the United States of tomato sauce, and a leading canner of tomato juice, peaches and other fruits and vegetables.

The Kelvinator Division of **Nash-Kelvinator Corp.,** to meet competitive conditions has embarked on an elaborate advertising and selling program. This takes the form, in part, of a complete display program which it is felt will stimulate interest in the product. The company states that the new merchandising plans have been made with full awareness that the "creeping mobilization" of industry for defense may leave manufacturers with more customers than they can supply.

Patents covering basic features of tubeless tires have been issued to **the B. F. Goodrich Co.** by the U. S. Patent Office. The invention of the revolutionary tires, which eliminates inner tubes, seals punctures on rolling wheels and protects against blowouts was first announced publicly almost five years ago. Patents granted the company cover the tire's air-tight lining, the air sealing ridges that lock the tire to the wheel, and the sealant that heals punctures while tubeless tires are in actual service. According to the manufacturer, tubeless tires have been a goal of tire engineers for more than a half century.

Eversharp, Inc. acquired for cash the entire assets and business of Climax Engine & Pump Manufacturing Co. Climax manufactures pumps and engines used in drilling and pumping operations in oil fields, irrigation systems, cotton gins and other industrial operations. The purchase was made from Eversharp's surplus cash.

Dixie Cup Co. has leased an ultra-modern plant in Anaheim, Calif. to serve West Coast and Mountain States customers. The plant, which has just been completed, was leased from Daystrom, Inc. and will shortly be equipped and in production. The building will represent a total investment of $1 million in machinery, equipment, facilities and rental. Daystrom built the plant to replace the Fullerton, Calif. facilities of its California subsidiary but the firm now feels that the Fullerton plant will be adequate, together with the Olean, N. Y. facilities, in the light of "critical material availability."

Sears, Roebuck & Co. has opened two new stores in Venezuela. Both stores, one in Caracas and the other in Maracaibo, are very large and are located proximate to the cities' business sections. With the opening of the new stores, Sears will have a total of 16 stores in Latin America. This is part of a long-term expansion program in that part of the world.

Pancoastal Oil Corp., C. A. has reported that Coastal Petroleum Corp., a wholly-owned subsidiary, has signed a lease with U. S. Sugar Corp. covering 100,000 acres of land along the southern shore of Lake Okeechobee, Fla. Coastal's contract with U. S. Sugar calls for tests of the property within two years but the company has stated that a deep test well would be drilled on the property some time this year. Coastal holds under lease from the state of Florida about 4.5 million acres of off-shore area.

Procter & Gamble Co., through its subsidiary, the Buckeye Cellulose Corp., has started construction of its planned $20-million plant at Foley, Fla. for the manufacture of nitrating and dissolving wood pulps. When completed in the fall of 1953, the plant will produce about 100,000 tons of pulp a year. The plant is being built adjacent to properties of the Brooks-Scanlon Co. from which Buckeye recently purchased 445,000 acres of timberland in northwestern Florida.

Union Oil Co. of California and Brazos Oil & Gas Co., a wholly-owned subsidiary of Dow Chemical Co., have signed an agreement covering exploration, drilling and production on their joint lands in the Sacramento valley. Under terms of the agreement, Union is named operator, with Brazos' present production at Isleton excepted from the operation. The two companies reported seismic work is being conducted on their extensive holdings in the Sacramento valley.

Garfield Chemical & Manufacturing Co., joint subsidiary of **American Smelting & Refining Co.** and **Kennecott Copper Corp.** has announced early construction of a $2.5 million addition to its Garfield, Utah sulphuric acid plant. When completed, output will be increased by 250 tons daily to 700 tons. The original cost of this new plant was $7 million, which, with the addition, brings the total cost up to $9.5 million.

Long Island Lighting Co. has spent $103 million for construction and improvements in the last five years and has earmarked an additional $41 million for the same purposes in 1952. Largest single item in the budget is $16 million for construction of three new 100,000-kilowatt electric generating units, one to be completed this year and the other two in 1953 and 1954 respectively. Total cost of the three units will be $50 million when completed. The company last year added 34,150 electric customers and 8,400 new gas consumers to the system.

Southern Natural Gas Co. filed with the Federal Power Commission a $76 million expansion program to bring additional gas into its Alabama, Georgia and Mississippi territory. Completion of the program would increase the capacity of the company's system by 350 million cubic feet a day to bring the total system capacity to more than 1 billion cubic feet daily. The program would provide natural gas for more than 50 communities in Alabama, Georgia, South Carolina and Florida, which do not now have natural gas. It would also make more gas substantially available to all of the 84 communities now served by the system. Carrying out the program is dependent on obtaining from the F. P. C. sufficient increase in present rates to justify the substantial investment required for these new facilities.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities* at reasonable intervals.**
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope.***
4. **No inquiry will be answered which is mailed in our postpaid reply envelope.**
5. **Special rates upon request for those requiring additional service.**

Garrett Corporation

"Please furnish information as to nature of business of the Garrett Corporation, late earnings and defense backlog."

A. T., Waverly, N. Y.

The Garett Corporation and subsidiaries showed an unaudited consolidated net profit of $1,137,000, or $1.81 per share, for the six months ended December 31, 1951, an increase of 44% over net earnings of $790,000, or $1.25 per share, for the same period a year ago.

The corporation's sales and backlog of manufacturing orders reached an all-time high during the current six months period. The major part of this sales volume is accounted for by its two manufacturing divisions — AiResearch Manufacturing Company, Los Angeles, and AiResearch Manufacturing Company of Arizona, Phoenix.

Consolidated sales for all divisions for the six months totalled $29,690,000, up 128% from the $13,033,000 reported for the six months ended December 31, 1950. Although profit margins were slightly lower, the company earned a profit before Federal taxes of $3,734,000 in the current period, an increase of 121% over the $1,688,000 reported for the corresponding period in the previous year.

Higher Federal income tax rates required a provision therefore of $2,597,000, an increase of 189% over the amount provided in the same period a year ago. This resulted in the provision for Federal income taxes being almost three times the provision of $898,000 made for the six months period ended December 31, 1950.

The backlog, made up primarily of military orders, stood at $132 million at December 31, 1951, an increase of 247% over the $38 million reported at the same date a year ago.

In order to provide the necessary additional working capital to carry increased amount of inventories and accounts receivables in connection with defense production contracts, the company has arranged a bank loan commitment totalling $16 million.

The two AiResearch plants currently are producing 720 individual items in fields of aircraft, air conditioning, cabin pressure controls and air valves, cabin super-charges, electrical and electronic equipment, heat transfer units, temperature controls, gas turbines and pneumatic power units. Approximately 98% of the military and commercial aircraft lines today carry AiResearch components of one or more types.

In addition to the two manufacturing companies, Garrett Divisions include AiResearch Aviation Service Company, Airsupply Company and Garrett Supply Company. Northill Co., Inc. is a subsidiary.

In order to accommodate the rapid build-up in defense production orders, the company expanded its manufacturing facilities by 45% during the past year.

Dividends in 1951 totalled $1.60 per share, compared with $1.70 in 1950.

Industrial Rayon Corporation

"I have been a subscriber to your valuable publication for some two years and and I desire at this time to avail myself of your offer to answer inquiries regarding listed securities.

"Please give me pertinent information regarding operations, earnings and dividends and outlook for Industrial Rayon Corporation."

C. G., Maplewood, Missouri

Industrial Rayon Corporation reported that operating income before taxes in 1951 was the second highest in the history of the company despite a general depressed textile market. Income before taxes totalled $21,890,000. Federal taxes of $12,498,000, equivalent to $7.11 per share, cut net income in 1951 to $9,392,000, equal to $5.34 per share. Net income in 1950 was $11,745,000, equal to $6.68 a share.

The company has announced that substantial expansion of its rayon tire yarn facilities at the Painesville and Cleveland, Ohio plants, has been started. When completed these expansions will increase the company's capacity of much-needed high tenacity yarns by approximately 15 million pounds annually.

Net sales in 1951 were $64,059,000 compared with $65,006,000 in 1950. Sales in 1950 were augmented by approximately $5,400,000 by the sale of inventories carried over from the prior year while in 1951, because of the depressed textile market, sales were reduced by about $4,800,000 by accumulation of inventories carried over into the present year.

In the face of one of the most difficult years for the textile industry, which witnessed curtailments in large segments of the rayon industry, Industrial Rayon Corporation continued full production of rayon yarn at all of its plants. The market for the company's products for the tire indus-

try continued at capacity throughout 1951 and this division of the company operated and sold its output to the limit of its capacity.

The requirements of the tire industry were more than 50% in excess of the available rayon tire yarn last year.

In 1951 the company attained an annual productive capacity of more than 100 million pounds annually. The expansion at Painesville and Cleveland, scheduled for completion at the end of 1953, will raise this to almost 120 million pounds.

Dividends in 1951 totalled $3.00 per share in cash plus 5% in stock. A 75 cent quarterly dividend was declared in the first quarter of 1952.

Link Belt Company

"Please report 1951 income of Link Belt Company, dividend payments and prospects over coming months.

P. C., Ashland, Ohio

Link-Belt Company showed a net income of $8,166,453, equivalent to $4.93 per share for 1951, which compares with $8,586,675, or $5.21 per share for 1950 adjusted for the two-for-one stock split made March 28, 1951.

Sales for the year advanced to an all-time high of $118,437,217, more than 40% above the $83,176,875 reported in the previous year.

Net working capital of the company at the year-end was $40,109,868 with total current assets of $58,629,725 and total current liabilities of $18,519,857, a ratio of almost 3.2 to 1.

According to the president of the company, he expects capacity operation in 1952, with military requirements and the need for increased production continuing a strong demand for company's services and products.

The new engineering and manufacturing plant now being erected at Colmar, Pa. to meet growing demand from steel, chemical and other industries, is expected to start operation in the last quarter of 1952 and a new Canadian plant being built at Toronto is scheduled for completion early in 1953.

Expansion of electric power industry, steel-making capacity and other basic defense supporting industries has offered Link Belt the opportunity to undertake full responsibility for engineering, manufacture, erection and performance of an unusual number of large projects.

Dividends in 1951 including an extra totalled $2.90 per share and 60 cents was paid in the first quarter of the current year.

Parke, Davis & Company

"I believe the ethical drug industry had another profitable year in 1951. Have you late earning figures of Parke, Davis & Company?"

E. D., Charleston, W. Va.

Despite an 89.5% rise in the provision for income and excess profit taxes, Parke, Davis & Company reported new peaks in both net sales and earnings for 1951.

The 85-year old pharmaceutical firm, which makes over 1000 different products, said the 1951 net sales rose 30.7% to a new all-time high of $138,136,475, and 1951 net earnings climbed 6.7% to the new peak of $19,053,742.

For 1950, the best previous year in the company's history, net sales were $105,707,659 and net earnings were $17,864,830.

The 1951 net earnings were equivalent to $3.89 on each of the 4,894,310 shares outstanding in comparison with the $3.65 a share earned in 1950.

The company provided $28,800,000 out of 1951 earnings for income taxes—$5,800,000 for excess profit tax and $23,000,000 for other income taxes. Thus, the pharmaceutical firm's earnings before taxes were $47,853,742.

In 1950, the company provided $2,150,000 for excess profit taxes and $13,050,000 for other income taxes—a total tax bill of $15,200,000 for that year. The firm's earnings before taxes in 1950 were $33,064,830. The 1951 charge for income taxes was equivalent to $5.88 a share, a 89.5% rise over the $3.11 a share for 1950.

Dividends paid in 1951 totalled $9,298,002, or $1.90 a share. This was an 8.6% increase over 1950, when paid dividends totalled $8,562,312, or $1.75 a share.

At the end of 1951, current assets were $88,068,776 compared with $67,662,197 at December 31, 1950. Current liabilities at the end of 1951 were $42,595,827, compared with $26,521,999 at December 31, 1950.

Armstrong Cork Company

"How have Armstrong Cork Company's sales and earnings reflected conditions in the past year?" Has financial position changed materialy?"

T. M., Millersville, Pa.

The Armstrong Cork Company in 1951 sold $201,134,473 worth of goods, the largest volume in its history, resulting in net earnings after taxes of $8,529,600. The 1951 net profits, which represent a return of 4.2% on sales, compared with 1950 net profit of $12,433,231—a return of 6.7% on a sales volume of $186,766,670. The decrease in profits is the result of higher costs of all kinds, including tax rates.

Earnings on the common stock last year, on the basis of income of domestic companies only and after deducting dividends paid on the preferred stock, were $5.35 per share as compared with $8.13 in the preceding year. Total dividends paid on the preferred and common stock amounted to $5,332,722, as compared with $6,249,225 the previous year.

Net earnings of the subsidiaries of the company operating abroad were $756,392 on combined sales of $24,409,823, as contrasted with a net profit of $506,163 on total sales of $16,159,200 in 1950.

Net working capital on December 31, 1951 was $36,215,381 compared with $40,457,563 on December 31, 1950. The ratio of current assets to current liabilities was 2.7 to 1 at the year's end compared with 3 to 1 a year earlier.

After the provision of a reserve of $2,809,000 for the excess cost of replacing buildings and machinery, earnings reinvested in the business increased from $37,638,434 on December 31, 1950 to $38,776,312 on December 31, 1951. Total assets increased from $126,570,129 to $131,026,154. Book value of the common stock rose from $56.58 to $59.73.

Rising operating costs and the heavy cash outlay required for taxes created a need for additional working capital, which the company has obtained through bank loans. At the year-end these amounted to $2,600,000. The company has no long-term debt.

Dividends including extras totalled $3.10 a share in 1951 and 65 cents was paid in the first quarter of the current year.

To a large degree, the company's other products than those in the building field, are linked either to expanding defense orders, or to everyday consumer needs. The rising tempo of the military program will influence sales of many of the company's industrial products, while consumer income and spending trends will have a major influence on sales of containers and closures.

Investment Audit of A. T. & T.

(*Continued from page* 694)

the third segment in the proposed disintegration. It is conceivable that eventually the parent company might feel constrained to sign a consent decree under which the Western Electric properties could be distributed in the form of shares of a separate company to A. T. and T. stockholders. This move could bring about a distribution of assets that might serve as a stock split.

Thus far the Bell system management has evidenced no change in its original intention to resist efforts of the government to break up the relationship. In its latest report to stockholders management points out that the companies in the system believe the relationship with Western Electric is very much in the public interest.

Among the most significant products developed in Bell Laboratory's research activities in recent years has been the transistor. This is a device capable of accomplishing feats now performed by vacuum tubes. The transistor occupies so little space and uses so little power, however, that it is deemed far superior to vacuum tubes and it is believed to hold promise of opening a new era in electronics. The device appears to make possible vest pocket radios and comparable reduction in the size of other electronic appliances.

Thus, although A. T. and T. is largely dependent on telephone users for revenues, it may look forward to participating importantly in the growth of television. Extension of transmission facilities to remote areas will pave the way for larger revenues from major TV networks for use of A. T. and T. facilities. The Western Electric subsidiary is handling substantial military orders for the armed services.

Perhaps the importance of the nation's telephone system as an integral part of its military defense is not fully appreciated. In this connection, Cleo F. Craig, president, points out in the 1951 statement to stockholders that through hundreds of thousands of skilled employees the company's organization is available to take quick and effective action in times of disaster.

"Their experience and know-how," he observes, "and the great scope and flexibility of the physical network of wire, cable, radio relay and mobile radiotelephones, make the telephone organization and the telephone system a solid and invaluable resource in the nation's defense."

Through the Bell Laboratories new military devices are being developed. Drawing on the skill of telephone technicians, the armed forces have obtained an advanced type of self-propelled guided missile. Another development has been a complete system for locating hostile aircraft, tracking them, and controlling the fire of anti-aircraft guns to destroy them.

Mentioning these non-telephonic activities calls attention to the fact that the company contributes importantly to scientific research. Probably little recognition is given to such services in negotiating rate cases, yet research must be supported by revenues from communications operations. Applications for higher rates are encountering stronger resistance from regulatory authorities. Thus management, must continue to direct its efforts to reducing manual operations and emphasizing mechanical devices.

Pressure of inflationary forces reflected in rising costs of materials and in recurrent wage increases presents a problem for management. Although earnings in recent years have afforded a moderate coverage for the $9 annual dividend, officials are by no means satisfied. They would like to see the dividend protected by a much wider margin, so that conservative investors would feel so confident of maintenance of the rate which has been paid for more than 30 years and never has been reduced that they would place an even higher appraisal on the shares.

Even though there is little likelihood of a cash dividend higher than the $9 annual rate in the foreseeable future, there still is the possibility of a breakup of the large organization which might result in distribution of a proportionate interest in subsidiaries. As an investment medium yielding almost 6 per cent on the cash dividend and not considering the value of any subscription rights that may be available, the shares have appeal as defensive holdings.

Stocks in a Good Tax Position

(*Continued from page* 691)

history. Based on the high EPT exemption, only a small amount is affected by the excess profits tax.

Net income fell off last year by a moderate amount but this was due to an increase in operating expenses, labor and material prices. Net income was $22.7 million against $24.3 million in 1950, or $10.39 a share against $9.74.

The road's operating margin has been greatly improved by the heavy economies realized from the dieselization program. It is estimated that $13 million was saved in 1951 through these new facilities, amounting to about $5.50 a share. In 1950, $17 million was saved, equivalent to $7 a share. As this is now a permanent factor in the road's earnings, barring any real slump in traffic, it would seem that a new and higher plateau of earnings has been reached.

Dividends of $4 a share are well protected, especially in view of the $8.72 a share EPT exemption base. At current prices of about 54, the yield is 7.4%. The stock seems attractive at these prices.

National Supply Co., together with its domestic subsidiaries, had a combined excess profits tax credit of $14.7 million in 1951 and it is estimated that this credit for 1952 will amount to about $15.2 million. Assuming income this year to be comparable to last year's which is reasonable in view of the company's prospects, the EPT exemption this year will be about $5.12 a share.

Earnings for 1951 amounted to $7.13 a share, indicating the very considerable margin with respect to excess profits tax despite the fact that this tax last year amounted to about $2 a share. Sales in 1951 amounted to $222 million against $156 million in 1950. It is expected that sales will reach $250 million in 1952 in which case a further rise in profits could be anticipated, especially in view of the fact that the bulk of profits is protected against EPT.

The stock represents one of the leading firms in the oil and gas equipment industry and has established a sound earnings base in recent years. It is, of course, benefitting especially from the enor-

(*Please turn to page* 716)

This is National Steel

In an industry whose very essence is bigness, National Steel is big.

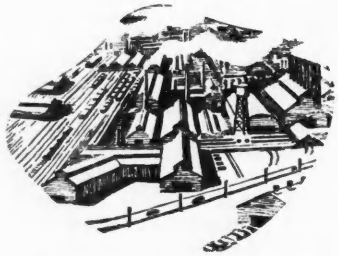
It is big geographically. National Steel properties are located in twelve states. Its sales and distributing organization extends from coast to coast and across the seven seas.

It is big physically. National Steel owns huge mills and mines . . . a complete fleet of lake ore boats. It operates the world's largest open hearth furnaces . . . the world's largest and fastest electrolytic lines . . . one of the world's largest continuous rolling mills.

Most important, National Steel is big in ideas, big in vision. Its advances in steel-making methods and processes have helped revolutionize the modern steel industry. Its present expansion program is now increasing National Steel's annual capacity from 4,750,000 ingot tons to 6,000,000 ingot tons, carrying on a record of continuous growth.

This is National Steel . . . big today, bigger tomorrow . . . one of America's foremost producers of steel.

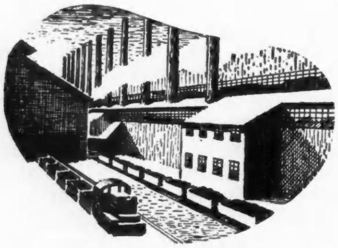
A color reproduction of this picture . . . in larger size for framing . . . will be mailed on request. →



WEIRTON STEEL COMPANY

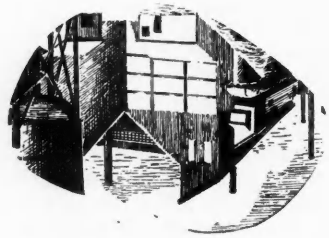
Mills at Weirton, West Virginia and Steubenville, Ohio. World's largest, independent manufacturer of tin plate. Producer of a wide range of other important steel products.

NATIONAL STEEL CORPORATION
GRANT BUILDING PITTSBURGH, PA.



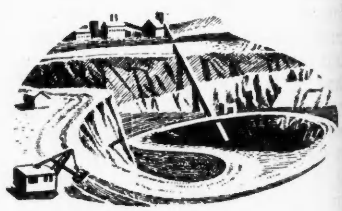
GREAT LAKES STEEL CORP.

Detroit, Michigan. The only integrated steel mill in the Detroit area. Produces a wide range of carbon steel products . . . is a major supplier of all types of steel for the automotive industry.



STRAN-STEEL DIVISION

Unit of Great Lakes Steel Corporation. Plants at Ecorse, Michigan, and Terre Haute, Indiana. Exclusive manufacturer of world-famed Quonset buildings and Stran-Steel nailable framing.

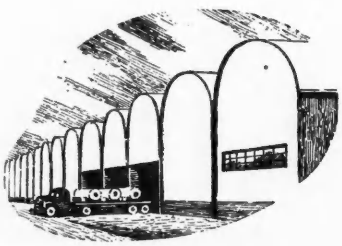


HANNA IRON ORE COMPANY

Cleveland, Ohio. Produces ore from extensive holdings in Great Lakes region. National Steel is also participating in the development of new Labrador-Quebec iron ore fields.

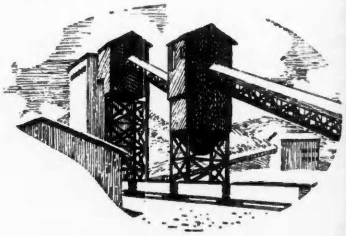
THE HANNA FURNACE CORP.

Blast furnace division of National Steel located in Buffalo, New York.



NATIONAL STEEL PRODUCTS CO.

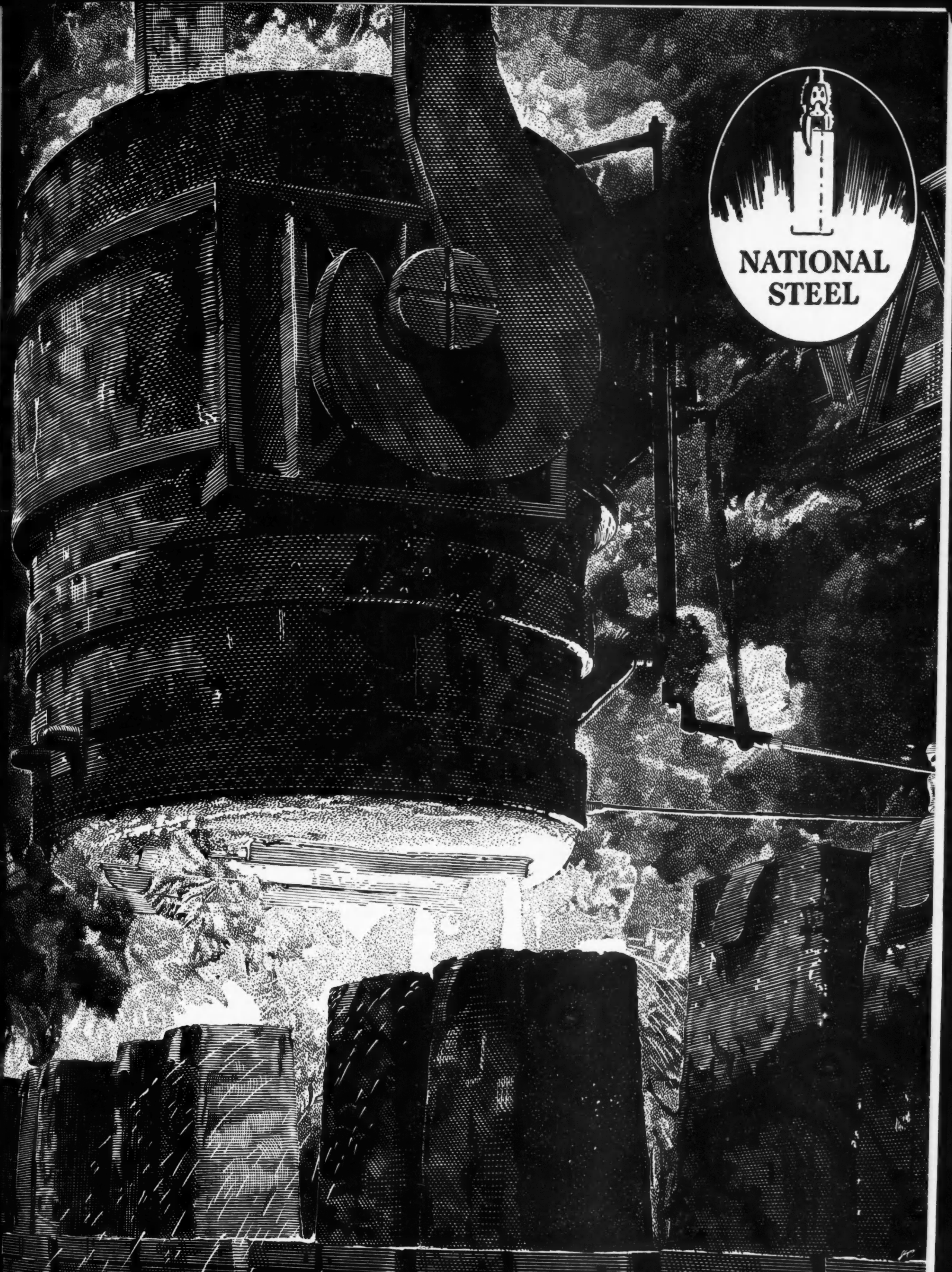
Houston, Texas. This new warehouse is a Quonset building supplied by Stran-Steel Division. Company distributes steel products throughout the Southwest.



NATIONAL MINES CORP.

Coal mines and properties in Kentucky, West Virginia and Pennsylvania. Supplies high grade metallurgical coal for the tremendous needs of National Steel.

SERVING AMERICA BY SERVING AMERICAN INDUSTRY


NATIONAL
STEEL

...eports on 1951

...f growth and progress ...elanese Corporation of America

...dian companies: Columbia Cellulose Com... Limited, completed the first phase of its plant ...ruction at Prince Rupert, British Columbia. Opera... of the pulp plant were commenced in May. Pro...n has been on an increasing scale, with the ...lties usually encountered in the start-up of a new ... gradually being overcome. At the outset the major ...asis was placed on training employees in their ...s.

...eering work is proceeding on the second phase of ...ruction which will increase the plant's capacity to ...ons a day. As the full volume of production is ...ed, the output of this plant should be a construc... factor in alleviating the continuing world-wide ...ge of cellulose.

...truction of the petro-chemical plant and chemical ...and fiber plant at Edmonton, Alberta, by Canadian ...ical Company, Limited, was well advanced by ...ear end. The total capital funds arranged for are ...,000,000 in the form of Capital Stock and ...000,000 in the form of bonds.

...Edmonton plant will produce a variety of industrial ...icals some of which will be used at the plant in the ...facture of cellulose acetate, acetate staple fiber ...filament yarns. In addition to such volume as is ...umed in the operations of the plant, it is planned ...rket chemicals and cellulose acetate in Canada and ...n countries. The staple fiber and filament yarns ...e sold principally to the Canadian textile industry.

... of the Celgar Development Company, Limited, ...h were announced immediately following the end ...e year, for an integrated forest industry in the ...w Lakes district of British Columbia, constitute the ... phase of the Canadian development program ...h was initiated four years ago. The development, ...h is expected to provide employment for 2,000 ...ns in the mill and logging operations, is estimated ...t $65,000,000, but this amount may be increased ...the addition of plywood and board mills.

Mexican and South American affiliates: Both Celanese Mexicana, S.A. and Viscosa Mexicana, S.A., two of our affiliates in Mexico, increased their production of acetate and viscose chemical yarns and fibers during the year. Production of viscose staple fiber commenced at the plant of Viscosa Mexicana, S.A. and provided the Mexican textile industry with a supplement to the acetate staple fiber produced by Celanese Mexicana, S.A. Production of chemical yarn and fibers will be further increased during 1952 by both companies.

Celulosa Nacional, S.A., another affiliate, has completed construction of its cellulose plant at Río Bravo in the State of Tamaulipas and has now begun production. The plant produces high alpha cellulose from raw cotton linters obtained from Mexican cotton.

Another affiliate, Claracel, S.A., was formed during the year for the manufacture of acetate film for packaging and wrapping purposes. Equipment was installed in a modernized building in Mexico City, with production scheduled to start shortly.

In South America, the construction of the acetate filament yarn plant of Celanese Colombiana, S.A., at Yumbo, near Cali, Colombia, was completed in record time despite difficulties of construction due to the distances involved in shipment of equipment. The plant was constructed and put in operation in less than twelve months. Steps already have been taken to increase substantially the initial capacity of the plant and to provide for production of staple fiber.

During the year Celanese Venezolana, S.A. was formed and financed jointly by our Company and Venezuelan investors, many of whom are leaders in the textile industry of that country. Construction on the plant near Valencia was started late in 1951 and is proceeding rapidly. Plans are also under way for the production of viscose filament yarn and staple fiber.

... From the President's Report, in the 1951 Annual Report to Stockholders

...ORPORATION OF AMERICA

180 MADISON AVENUE, NEW YORK 16, N. Y.

...BERS • TEXTILES • PLASTICS • CELLULOSE

Stocks in Good Tax Position

(*Continued from page* 711)

mous drilling activity and pipeline construction in the oil and gas industries. The present price of the stock is about 34. With a dividend of $2 a share, the yield is slightly under 6%. While in a comparatively volatile industry and, hence, speculative, the stock seems under-valued at current prices.

Niagara Mohawk Power Co. The exemption on EPT is in excess of earnings and the excess profits tax probably will not be operative for several years though steady progress in earnings will eventually make this a consideration. Earnings last year were $2.05 a share, not adjusted for the 1 million additional shares sold at the end of 1951, and the exemption rate is estimated at $2.25 a share. On an adjusted basis, earnings were $1.81 a share.

The company is steadily expanding its resources in response to increasing demand for power in the vast industrial complex which it serves, stretching from the central regions of New York to the Niagara River. In the four years 1947-50, about $111 million was spent for capital improvements. Continuing its expansion program, the company spent $53 million in 1951, with approximately another $100 million scheduled for 1952-53. This program has been partially financed through the sale of stock and short-term notes.

New record highs for electric and gas sales were made in 1951, with total revenues $176 million against $152 million in 1950. The company is one of the largest utility systems in the United States with well-defined growth potentialities. Dividends of $1.45 a share are being paid, a rate that can easily be supported in view of the steady expansion in revenues and the favorable tax position. At current prices of about 26, the yield is 5.4%, a satisfactory return in view of long-range appreciation possibilities.

Well-Sheltered Rail

Great Northern Railway Co. would have to earn as much as $12.93 a share before the excess profits tax became operative. Last year's earnings amounted to $7.74 a share and in 1950 they were $9.11 a share. Obviously, the stock is well sheltered so far as excess profits tax is concerned. Ordinary federal taxes increased moderately from $16.9 million to $17.8 million, a rise of only 5%.

The road receives a substantial part of its revenue from the prosperous Chicago, Burlington & Quincy RR, in which it shares joint ownership with Northern Pacific. With the opening up of Great Lakes traffic, due shortly after the normal winter tie-up, revenues are expected to increase sharply, especially in view of stepped-up iron ore production which plays a considerable part in Great Northern's traffic.

Since the end of World War II the road has earned an average of close to $8 a share on the non-cumulative preferred stock (there is no common). This is double the current rate of dividends, now at $4 a share annually, having been raised from $3.50 a share in 1950. With the road in excellent physical condition and no near-by bond maturities, earnings seem quite ample to cover the dividend rate. At current prices of about 50, the

yield is 8% which is attractive in view of the sound earnings position and the immunity to excess profits tax.

General American Transportation Corp. The excess profits tax exemption is estimated at $5.43 a share on 1951 earnings which were $5.76 a share. With the great bulk of profits exempted from this levy, the company is in a position to pay out about 60% of its net earnings in dividends. This is approximately the ratio of dividends to earnings in the past five years. The company has paid dividends without a break since 1919.

While the bulk of revenues is derived from the leasing of tank, refrigerator and other cars, it also manufactures and repairs freight cars and is engaged in miscellaneous manufacturing serving a wide variety of industries. Among them are: chemical, food, paper and pulp and distilling. It also manufactures facilities for precooling fresh fruits and vegetables prior to shipment. With this background, General American Transportation may be considered operating in a highly essential industry, thereby giving it a strong earnings foundation.

The common stock, of which there is approximately 1 million shares outstanding, is of the more conservative industrial type with comparatively moderate price fluctuations, as a rule. At current prices of about 54, the stock offers an attractive yield of 6.4%.

For Profit and Income

(*Continued from page* 701)

ment's past dividend leanings suggest either a boost in the regular rate, an extra or declaration of another stock dividend before the end of this year. The stock is currently priced at less than 8.6 times 1951 earnings at $32\frac{1}{2}$. A price-earnings ratio of 10—and ratios materially higher than that have been reached in some past years—would mean an appreciation of more than 17% from the present level.

Textiles

The textile slump is worldwide and has already run for nearly a year in this country. The cycle is normally fairly short, and recent sharp curtailment in production should hasten completion of the trade inventory adjustment. Industry sources look for some revival by late spring or early summer. The stocks are far under their early 1951 highs; and in most cases much the greater part of the total decline to date has been seen by last autumn. Further recent declines have been generally moderate in the face of prevalent bearishness and poor trade news. When stock action is better than the news, after a wide decline in prices, it is generally sounder policy to watch for buying opportunities than to press belated liquidation. Textiles may be near, if not at, sold-out levels, although such an assumption will be safer if they do not decline importantly further after publication of extremely poor coming first-quarter earnings reports. A speculative issue worth earmarking is Beaunit Mills, which moves over a wide range; and is currently at $19\frac{1}{4}$, down 18 points from its 1951 high of $37\frac{1}{4}$ and less than 7 points above its 1949 bear-market low. Earnings for the fiscal year ending March 31 will be far under the prior year's record $6.42 a share and might be nil, or nearly so, for the March quarter. The dividend was omitted last October, so this bad news is out of the way; and payments might be resumed later in the year.

Guatemala vs. United Fruit-Nationalism Plays Into Reds' Hands

(*Continued from page* 689)

budget, the *total* appropriation for sanitation and the fight against malaria and typhus amounts to only 233,000 quetzals. . . . Competent specialists of the Pan-American Sanitary Bureau estimate expenditures necessary for permanent sanitation of this region at about 30 million quetzals."

To reemphasize: Guatemala's future depends upon the modernization of her agriculture. This does not mean the introduction of tractors or machinery. The country needs simple equipment and new crops. The country's industries cannot prosper without the broadening of the internal market.

There is hardly any local capital and the country is therefore dependent for the exploitation of its resources on the participation of outside capital. But it is unlikely that any private American capital (outside of enterprises already in Guatemala) will take interest as long as the government kow-tows to and lets itself be intimidated by pro-Moscow labor union leaders. The majority of the Guatemalans, of course, are anti-communist and there are signs of growing pressure on the Arbenz government to stand up to the communist-led labor unions. Failure to do so cannot but result in a gradual withering of Guatemalan economy which in turn would bring more radicalism.

Another Look at the Building Industry

(*Continued from page* 699)

the accompanying table, profit margins have been declining. High taxes, of course, have played their part in this situation.

Individual large-scale building projects are tending to lend support to the general volume of construction. Thus, FHA insured mortgages totaling over $200 million, providing homes at scattered military installations for 25,000 families of military personnel, have been authorized under the Wherry Act. Slum clearance programs are prominent. Among such developments are the Cleve-

land Home Builders Association plan to start construction on whole city blocks of low-cost housing units in slum areas. A corporation has been formed in Baltimore to campaign for repair and reconstruction work in blighted sections. Added to these developments is the new 16,000 project, virtually a brand-new city, to provide workers and business men with homes and shops in the New Jersey area serving the new $400 million Fairless plant of the U. S. Steel Corp. Most of the large cities of the United States are going ahead with their own slum clearance projects running into the hundreds of millions of dollars annually. On the other hand, high-rental apartment building is on the decline.

In conclusion, it would seem that during most of the year, the building suppliers will meet more competitive conditions and that they will continue to be hampered by uncertainties regarding government regulations, which include mortgage financing as well as the allocation of materials. New credit regulations permitting smaller down payments on homes under $10,000 should help stimulate construction of houses in this category. On the other hand, mortgage money is somewhat dearer.

Longer Outlook Good

For the longer range future, the outlook should be considered satisfactory once present temporary handicaps are removed, as they will tend to be towards the end of the year. The fundamental need for housing is as acute as ever, despite the great volume of building since the end of World War II. With mass purchasing power generally at high levels and likely to continue so, the present less active conditions in the building industry should be considered mainly an interregnum in the longer-range trend.

From the practical market standpoint, the high yields offered by a number of building stocks, as illustrated by the accompanying table, seem to indicate some doubt as to whether current rates can be maintained in such cases, as the margin of earnings over dividends has narrowed considerably. The stronger companies, of course, are in a more secure position and this is reflected in the relatively higher valuation of their shares. Most of these better grade building stocks have not given way much in the stock market despite the general uncertainties affecting the industry. This would seem to indicate longer-range confidence in their outlook, though they may be affected somewhat marketwise in coming months as their earnings reports commence to show the effects of the lower activity in the industry.

In order to give a more detailed view of specific conditions affecting individual companies, we present herewith a brief analysis of several of the more prominent members of the group. To bring readers up to date, we have limited the discussion only to companies which have already published their 1951 reports.

The Flintkote Company had a net income in 1951 of $5.5 million compared with $7.7 million the previous year. Unlike many other companies which showed a decline in earnings principally due to high taxes, Flintkote's reduction was due to an increase in costs and general expenses. These combined rose about $4.5 million at a time when sales remained almost static at about $84 million. The result was to reduce the gross profit by about $3 million and after other charges, income before taxes declined from $14.7 million to about $11 million. Under these conditions, taxes declined about $1 million to about $5 million. Expressed in per share earnings, 1951 showed $4.11 a share against

(*Please turn to page* 720)

Another Look At The Building Industry

(*Continued from page* 719)

$5.83 the previous year.

An increase of about $1.5 million in inventories is a comparatively unfavorable feature in view of the over-supplied condition of the building trades industry generally. This aside, the company maintained a strong financial position with cash and government securities at approximately 200% of current liabilities, against 170% the year previous. This was accomplished despite a decline of about $1 million in cash, mainly due to a decline of about $1.3 million in accounts payable.

The company has been affected by a lower demand for building materials and automotive products, due mainly to government restrictions. Competitive conditions are increasing and it seems doubtful that 1951 earnings can be maintained.

The Ruberoid Co., one of the stronger companies in the building industry, turned in what was a comparatively good report for 1951, though earnings were moderately off from 1950. Last year's earnings were $7.23 a share compared with $9.64 a share the previous year. Ruberoid's drop in earnings was due to a $1 million increase in taxes.

The company will be favored by the rapid accumulation of building in need of repair or replacement, as over half of its production is for these purposes.

Ruberoid gave an unusual performance in adding $1.2 million to current assets which now stand at almost $18 million, at the same time that current liabilities were reduced by about $700,000 bringing the latest figure to about $1.6 million. Working capital is now $16.4 million against $14.4 million in 1950.

Dividends were paid at the rate of $3.50 a share in 1951 and were covered more than twice.

Certain-teed Products Corp., showed earnings of $3.11 a share in 1951 compared with $3.91 a share in 1950. An increase of $7 million in the cost of goods sold and general expenses somewhat exceeded the $6.5 million gain in sales. With "other income" dropping above $700,000, net income was reduced by about $1.3 million to $5.0 million after taxes.

With the volume of new business contracting, in addition to lower prices for some of the company's products, the usual extra dividend paid at the year-end was omitted, leaving the regular rate at 25 cents a share quarterly.

The company's $1 dividend rate is conservative in view of demonstrated earning power. Even the expected decline in earnings this year should not be sufficient to affect the current rate of payments. At current prices of about 15, the yield is about 6.7%.

Devoe & Raynolds Co., Inc. reported for 1951 net income of $1.9 million compared with $2.7 million in 1950. This was equivalent to $3.42 a share on the "A" stock against $5.32 a share, and $1.71 a share on the "B" stock, compared with $2.66 a share. The decline was largely due to an increase of about $1 million in taxes.

Financial condition was strengthened materially through the sale of $3.5 million in 3% debentures, with net current assets up about $3.8 million.

Dividends are being paid at $2 annually, including a 10% stock dividend last year. Dividend coverage seems adequate.

Market Selectivity Continues

(*Continued from page* 675)

quarter and more so in the second half. Although the first-quarter earnings comparisons will be generally poor on a year-to-year basis, they may well be the worst of the year, with later comparisons moderately better both year-to-year and quarter-to-quarter. The general dividend outlook is quite static at best, but current dividend yields, averaging around 6% on representative industrials, are high enough to make typical investors reluctant to liquidate good stocks, especially since effective yields on stocks bought at much lower levels in recent years or older years are, of course, far more than 6%.

In the conjectural business prospect for 1953 and post-defense there is no lack of worry. This—together with the relatively high prices of the most favored stocks and the lack of dynamic attraction in many others—could readily restrict the market's general advancing phases, as heretofore. But, otherwise, not much inclination to try to look that far ahead is yet evident on the part of investors, perhaps because they know that so many "ifs" and "buts" are involved in any long look ahead.

Modest as it has been to date, the market's improvement in recent weeks has been negatively on the encouraging side because of the environment in which it occurred—an environment of disappointingly slow rise in arms outlays, of slackness in many lines of civilian business, of adverse year-to-year retail trade comparisons, of mild pressure on the corporate bond market, of softness in commodity prices, of preparation for the heavy March income tax payments and of well advertised coming poor first-quarter earnings reports. It could have been worse.

The performance has given sentiment some lift, just as the January-February decline did the reverse. The way these matters generally work out, a near-term

reactionary test or a dull stalemate would not surprise us. A selective middle-road investment policy, holding reasonable reserve funds intact—in other than conservative investment accounts requiring maximum emphasis on income return—remains the soundest one.—Monday, March 17.

What the Investor Must Look For to Safeguard His Position

(*Continued from page* 683)

for income. In the other the spirit of Moses Pendleton, hero of a generation-long battle to get Woolen on solid ground, presided over the counsels of the management.

These instances are not cited with either praise or blame in mind. They are meant to show what wide discretion in dividend policy is possessed by management. This discretion is wider now than ever. Some companies are in the hands of wealthy men whose own investment purposes are better served by plowing back earnings and building up capital values than by distributing dividends. The certificates-of-necessity program, in some instances, will put funds in management's hands at the same time that it reduces nominal earnings.

Today more than ever before, public relations have a high place in corporate managements hearts. The investor who really tries can learn from high officials' own mouths what they intend to do with their companies' money. The investor who wants to go along for capital gains, and the one whose needs include a steady income, can find companies of identical strength and safety who intend to follow the two divergent paths.

To sum up, this is a time to review one's holdings, to see which stocks are cheap and which expensive at today's price and earnings levels, which may resist an intermediate decline best, and which have managements whose dividend policies go along with the individual investor's preferences.

It would be unfair to leave the subject here, without answering the questions which must by now have arisen in every reader's mind: Why isn't this good policy at any time? Why bring up the subject just now? What have you told us to do that the prudent investor shouldn't do every time he considers his program at all?

For some time, civilian demand for durable goods has declined. Corporate profits, as mentioned before, have been falling. Capital investment remains at a high level, but if the stimulus of rapid amortization could be extracted from that investment, it would obviously be trending downward.

On the other hand, history reminds us that corrections such as the one now occurring in the durables, and the year-long recession in textiles, always go too far. While the military spending curve will find it difficult to increase fast enough to offset a steeper fall in durable goods output and a falling-off of civilian investment, there is a strong possibility that the durables at least will turn back upward just as the pump-priming of military demand takes hold.

Until these questions resolve themselves, the market must logically lack a strong bias in one direction or the other. But this period of indecision will not last forever. Time is the commodity the investor lacks. Hope, inertia, indecision, plain indolence, can carry him past the point where switches into the most advantageous holdings can best be made. This is not advice to buy or sell any specific stocks at once. It is a strong urging to look at one's stocks—and bonds—immediately, with the questions: "Do I want to carry this security through a major decline?"

The investor will find in most cases that he will not wind up with two lists. Certain strong situations will get an answer "Yes" on both counts. The weaker ones will have a "No" or a questionmark. Even for the man who is reluctant to take profits, now is the time to get rid of those questionmarks!

Weighing Forces of Recession Against Arms Stimulus

(*Continued from page* 678)

will certainly make supplies look more abundant.

So far, and in overall terms, the soft spots and restraining factors have not been exerting a net depressing influence, notwithstanding serious recessive tendencies in certain industries. The fear is that recessive trends will deepen, with an at least moderately depressive effect on the overall economy in the months immediately ahead.

Leveling-Off Point Near

There is every evidence that business in depressed consumer lines hasn't hit bottom yet though the levelling-off point may not be too far away. For some time, business has been suffering from a substantial inventory jolt and in the late phase of such a development, everyone buys cautiously. Certainly supplies begin to look big if inventories are burdensome and move slowly. That probably accounts for the sudden appearance of a great deal of metal, of which much has been hoarded, at a time when jitters abroad also opened the way for bigger imports.

To sum up, further readjustment looms ahead, reflecting the present preponderance of deflationary forces in the tug-of-war between inflation and deflation. That's why Federal prophets who have consistently voiced fears of shortages and run-away prices, now suddenly talk of a possible "slide." They go as far as discussing the need for priming the pump for civilian business—right in the midst of the big arms build-up.

Credit May Be Easier

There has been talk of relaxing consumer credit to spur consumer buying. The President has asked Congress for more public housing to limit the recession in the building industry. Pentagon officials scheme to stockpile machine tools though the latter still constitute a bottleneck. And it would not surprise if some were toying with the idea of reversing the "stretch-out" of the arms program.

Few if any of these thoughts will likely be translated into action any time soon, if at all, despite the current soft-pedaling of the official inflation line. One reason is that such actions would automatically strengthen the case for de-control, and the Administration is not ready to drop controls entirely.

It admits, however, that decontrol of materials will "accelerate as the months go on." Commerce Secretary Sawyer, conceding existing soft spots in the economy, nevertheless expresses the belief that there will be no "large recession" this year. It is highly doubtful that there will be anything like a large recession; but a "small one" is quite within the realm of possibility. If so, it will likely be short but could nevertheless be painful for those hit by it most. Many won't feel it; the arms build-up sees to it that there will be plenty of strong spots as well.

As I See It!

(*Continued from page* 673)

to a new and inexperienced lower-middle class of workers under the direction of General Peron. Whether Mr. Peron proves equal to his task remains to be seen. Just now, it seems that the economic, political and social forces that he has unleashed may engulf him some day. In Brazil, a similar process is taking place, but at a somewhat slower tempo. In Guatemala, as the reader will discover for himself from an article in this issue, the balance of power was transferred from the landowner and merchant class to a very small group of tightly organized industrial workers, who, since the country consists largly of Indian peasantry, are as much a *minority* as were the upper classes.

The chronic Latin American political and economic instability can be cured only by the broadening of the base of operations: by economic diversification and general expansion of production to provide for the rapidly growing population and by including all classes of population in the government: the old landowner class, where their holdings had not already been distributed, businessmen and entrepreneurs, the working classes and even the peasantry. As long as the balance of power rests in the new inexperienced class of unionized industrial workers, as it does in Argentina or in Guatemala, there is serious danger that the entrepreneurial element will be discouraged and the economy of a country will wilt. Indeed, with economic conditions deteriorating, as now in Argentina, there is even a greater danger that the unions and eventually also the government may be either captured by the communist labor leaders and their fellow-travellers or at least be intimidated by them.

Latin America is going through growing strains, economic and political. There are and will be false starts. There will be detours. There will be irritations, such as the recently suggested obstacles to American capital investments in Brazil. The one thing the United States must bear in mind through all vexations is this: there must be no opportunities for the establishment of communist beachheads in the Western Hemisphere, the last bastion of the Free World.

The Magazine of Wall Street's

COMMON STOCK INDEX

1952 Grouping of the 330 Component Issues

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Stone & Webster
L—United Cigar-Whelan
H—United Fruit

In Which Group Do Your Securities Fall?

- 1. Securities which have shared only slightly in the recovery since 1949 and for which the future is not promising.
- 2. Securities which have fared reasonably well in the past — but where only limited expansion is likely in the future.
- 3. Securities which have already advanced substantially and for which further strong gains are likely.
- 4. Securities which have participated lightly in recovery but are now ready to move ahead at a rapid pace.

Are you retaining too many securities in Groups One and Two which should be eliminated and replaced with appropriate investments in Groups Three and Four?

Our Analyses of thousands of substantial investment portfolios reveal that the average list is comprised of a miscellaneous collection of stocks and bonds—without balanced diversification—often failing to meet the investor's income needs—all too frequently lacking strong appreciation potentialities.

We regard the present as an opportune point in the market to arrange a rounded program for keeping your funds diversified among leading companies in industries with a promising outlook for sustained earnings and dividends under 1952-1953 conditions.

As a first step toward increasing your profit and income, we invite you to submit your security holdings for our preliminary review—*entirely without obligation*—if they are worth $20,000 or more.

Our survey will point out various of your less attractive holdings, and some of your securities to be retained only temporarily. It will tell you how our personal supervision can assist you to strengthen your diversification, income and the enhancement possibilities of your account. We will evaluate your list and quote an exact annual fee for our service.

Merely send us a list of your securities. Give the size of each commitment and your objectives. All information will be held in strict confidence. This offer is open only to responsible investors who are interested in learning more about our investment counsel.

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for Lorillard's Fine Tobacco Products

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

For the Year Ended December 31, 1951 *With Comparative Figures for 1950*

	1951	*1950*
Sales, less Discounts, Returns and Allowances	$188,447,430.83	$167,936,931.43
Cost of Goods Sold, Selling, General and Administrative Expenses	176,034,189.06	154,552,502.91
Operating Income	$ 12,413,241.77	$ 13,384,428.52
Other Income and *Expense* (net)	92,233.22	291,632.96
	$ 12,321,008.55	$ 13,676,061.48
Interest on Long-Term Debt	$ 1,034,700.63	$ 839,272.50
Amortization of Debenture Discount and Expense	30,058.56	12,611.27
Other Interest	312,777.08	191,409.53
	$ 1,377,536.27	$ 1,043,293.30
Income before Taxes on Income	$ 10,943,472.28	$ 12,632,768.18
Provision for Federal Income Tax	$ 5,302,000.00	$ 5,087,000.00
Provision for Federal Excess Profits Tax	286,000.00	564,000.00
Provision for State Income Taxes	229,000.00	244,000.00
	$ 5,817,000.00	$ 5,895,000.00
Net Income for year	$ 5,126,472.28	$ 6,737,768.18
Earned Surplus at beginning of year	27,372,160.03	25,476,604.10
	$ 32,498,632.31	$ 32,214,372.28
Dividends on Preferred Stock ($7 per share)	$ 686,000.00	$ 686,000.00
Dividends on Common Stock (1951, $1.50 per share; 1950, $1.85 per share).	3,669,426.91	4,156,212.25
	$ 4,355,426.91	$ 4,842,212.25
Earned Surplus at end of year	$ 28,143,205.40	$ 27,372,160.03

Depreciation provided—1951 $815,827.07 • 1950 $703,831.25

CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1951 *With Comparative Figures for 1950*

ASSETS

CURRENT ASSETS:	*1951*	*1950*
Cash in banks and on hand	$ 7,530,826.46	$ 5,933,736.34
Accounts receivable—trade (less reserves 1951, $639,172.85; 1950, $686,508.30)	8,952,647.07	9,075,919.78
Other accounts and notes receivable	448,284.60	425,947.34
Inventories, at cost:		
Leaf tobacco	88,118,881.73	74,585,495.96
Manufactured stock and revenue stamps	9,124,404.40	6,013,436.71
Materials and supplies	4,752,392.55	3,862,248.15
Special deposits—contra	666,212.75	1,126,785.34
Total current assets	$119,593,649.56	$101,023,569.62
PROPERTY PLANT AND EQUIPMENT:		
As adjusted December 31, 1932 by authorization of stockholders, plus subsequent additions at cost, less retirements	$ 21,342,441.13	$ 19,433,534.84
Less: Reserves for depreciation	7,141,605.80	6,698,748.90
Total property, plant and equipment	$ 14,200,835.33	$ 12,734,785.94
BRANDS, TRADE MARKS AND GOODWILL	$ 1.00	$ 1.00
DEFERRED CHARGES:		
Prepaid insurance, advertising and taxes	$ 680,323.69	$ 595,652.70
Unamortized debenture discount and expense	450,361.04	63,254.60
Miscellaneous	560,225.45	370,212.56
Total deferred charges	$ 1,690,910.18	$ 1,029,119.86
	$135,485,396.07	$114,787,476.42

LIABILITIES

CURRENT LIABILITIES:	*1951*	*1950*
Notes payable—banks	$ 26,009,000.00	$ 18,700,000.00
Accounts payable—trade	3,405,015.63	3,235,630.11
Twenty Year 3% Debentures (due within one year)	600,000.00	600,000.00
Accrued taxes	6,331,960.97	6,385,910.78
Accrued payrolls	435,069.35	599,333.03
Accrued interest	274,500.00	258,071.87
Other accrued liabilities	222,760.43	210,256.35
Dividends, etc.—funds on deposit, contra	666,212.75	1,126,785.34
Total current liabilities	$ 37,935,519.13	$ 31,116,017.48
LONG-TERM DEBT:		
Twenty Year 3% Debentures, due October 1, 1963 ($600,000 to be retired annually 1952-1962)	$ 16,000,000.00	$ 16,600,000.00
Twenty-Five Year 3% Debentures, due March 1, 1976 ($350,000 to be retired annually 1954-1975)	15,000,000.00	—
5% Gold Bonds, due August 1, 1951	—	6,195,450.00
Total long-term debt	$ 31,000,000.00	$ 22,795,450.00
CAPITAL STOCK AND SURPLUS:		
Capital Stock:		
7% Cumulative Preferred, par value $100 per share: Authorized 99,756 shares Issued 98,000 shares	$ 9,800,000.00	$ 9,800,000.00
Common, par value $10 per share: Authorized 5,000,000 shares Issued 2,496,281.89 shares	24,962,818.90	22,466,818.90
Paid-in Surplus	3,643,852.64	1,237,030.01
Earned Surplus, as per statement ($19,872,160.03 not available for cash dividends on common stock under provisions of debenture indenture)	28,143,205.40	27,372,160.03
Total capital stock and surplus	$ 66,549,876.94	$ 60,876,008.94
	$135,485,396.07	$114,787,476.42

We'll be glad to send you a copy of our illustrated Annual Report for 1951. Write P. Lorillard Company, 119 West 40th Street, New York 18, N. Y.

P. Lorillard Company

AMERICA'S OLDEST TOBACCO MERCHANTS · ESTABLISHED 1760

Leading Products of P. Lorillard Company

Other Product

Cigarettes
MURAD
HELMAR

Smoking Tobacc
FRIENDS
INDIA HOUSE

Cigars
HEADLINE
VAN BIBBER
BETWEEN THE ACTS

Chewing Tobacc
BAGPIPE
HAVANA BLOSSO

ear

SURPLUS
1950

1950
167,936,931.43
54,552,502.91
13,384,428.52
291,632.96
13,676,061.48
839,272.50
12,611.27
191,409.53
1,043,293.30
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686,000.00
4,156,212.25
4,842,212.25
7,372,160.03

25

1950
3,700,000.00
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600,000.00
5,385,910.78
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210,256.35
1,126,785.34
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